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ABSTRACT

This study was requested (by Representatives Charles B. Rangel and Harold Ford) in August 1984, to explore the factors which influence the poverty rate among children. Researchers were asked to examine demographic trends, economic factors, government policies, and other phenomena which could help explain why, despite increased government expenditures, the poverty rate among children has risen. Policy options to reduce poverty among children were also examined. Part I of the report explores trends and policy from 1959-1984, including the definition, description, and dynamics of poverty; how household composition affects poverty among children; family income; unemployemnt and income distribution; and government transfer spending. Part II concerns policy options to reduce poverty among children and discusses the incidence of poverty among children; government policy in designing and administering aid; options for cash and in-kind transfer programs; nutrition, welfare, educational and other service options to deal with the effects of poverty; and options for improving employability. Part III concerns the costs and effects of expanding the Aid to Families with Dependent Children (AFDC) programs, and describes and analyzes expansion proposals, benefit levels, extending benefits to two-parent families; increasing deductions from income liberalizing asset restrictions, reducing states' financing shares for increases in AFDC benefits, and the costs and effects of enacting the package of proposals. Extensive appendices provide additional details about programs and background information; statistical tables and charts are also included. (CG)

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COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

CHILDREN IN POVERTY

MAY 22, 1985

Prepared for the use of the Committee on Ways and Means by the Congressional Research Service [CRS] and the Congressional Budget Office [CBO]

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4.

LETTER OF TRANSMITTAL

COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES,
Washington, DC, May 15, 1985.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: We are pleased to transmit this study, "Children in Poverty," conducted by the Congressional Research Service (CRS) and the Congressional Budget Office (CBO).

With kind regards, we are

Sincerely,

CHARLES B. RANGEL,
Chairman, Subcommittee on Select Revenue Measures.

HAROLD FORD,
Chairman, Subcommittee on Public Assistance and Unemployment Compensation.

Enclosure.

PREFACE

This study was requested by Chairmen Ford and Rangel in August of 1984. The study was requested because they wanted to explore the factors which influence the poverty rate among children. The researchers were asked to examine demographic trends, economic factors, government policies and other factors which could help to explain why, despite increased government expenditures, the poverty rate among children has risen. Policy options to reduce poverty among children are also examined.

The study was conducted by the Congressional Research Service (CRS) and the Congressional Budget Office (CBO). Part I of this report entitled, "Poor Children: A Study in Trends and Policy, 1959–84", was prepared by CRS. As the title indicates, this section presents a historical analysis of children in poverty and federal policy directed at those children. Parts II and III of this report were prepared by CBO. Part II of the report is entitled "Policy Options to Reduce Poverty Among Children", and Part III is entitled "Costs and Effects of Expanding AFDC". As those titles suggest, these parts of the study explore various policy options to reduce poverty among children. In addition, as background information to the report, appendixes A through I were prepared by CRS and appendixes J and K were prepared by CBO. While CBO and CRS prepared separate portions of this study about children in poverty, there was much coordination of effort between the staffs of the two organizations.

The Chairmen wish to express their utmost appreciation to the staffs of these two organizations for the outstanding quality of this report on children in poverty. We are aware that this study is the result of months of work and many long hours by individuals in both organizations. Again, we wish to express our sincerest thanks for this splendid report.

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Congressional Research Service (Part I and Appendixes A–I)

A team of CRS analysts wrote Part I of Appendices A–I of this report, namely: Vee Burke, Kenneth Cahill, Joseph A. Cislowski, Thomas Gabe, Jeanne E. Griffith, Richard A. Hobbie, Bob Lyke, Barbara McClure, Jennifer O'Sullivan, Joe Richardson, Richard Rimkunas, Carmen D. Solomon, Karen Spar, Sharon Stephan, Richard Verdugo, and Joyce Vialet. All are members of the Education and Public Welfare Division except for Jeanne Griffith, a demographer in the Government Division. The authors received research assistance from Michael Burke and Gene Falk.

Thomas Gabe and Richard Rimkunas provided the basic income data on which the report is based by analyzing Census Bureau public use tapes covering the years 1968–83 (from the Current Population Surveys made in March, 1969–84).

Peter Gottschalk, Bowdoin College, served as a consultant on the project and performed the analysis on which much of Chapter V is based.

Deborah C. Jackson directed secretarial production of the report. Text and tables were typed by a patient team: Mary Anderson, Leona Fox Barber, Tracy A. Byrd, Flora Dean, Deborah C. Jackson, and Arleen Scuka.

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The project was directed by Vee Burke, with the assistance of Joe Richardson. Mrs. Burke also edited the report.

Congressional Budget Office (Parts II and III and Appendixes J and K)

Roberton C. Williams and Gina C. Adams of the Human Resources and Community Development (HRCD) Division of the Congressional Budget Office prepared Part II of this study under the supervision of Nancy M. Gordon and Martin D. Levine. A number of individuals currently or previously on the HRCD staff also contributed sections, including: Thomas J. Buchberger, Daniel Koretz, Martin D. Levine, Stephen H. Long, Carla I. Pedone, Ralph E. Smith, and Bruce Vavrichek.

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LETTERS OF REQUEST

COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES,
Washington, DC, August 10, 1984.

Mr. GILBERT GUDE,
Director, Congressional Research Service, the Library of Congress, Washington, DC.

DEAR MR. GUDE: We would like to request that the Congressional Research Service undertake a major study of children in poverty.

As you know, the number of related children under 18 in families in poverty declined from the early 1960's to the mid-1970's but has recently increased so that in 1983 some 13.3 million or 21.7 percent of children were living below the poverty level. This compares to 12.1 million or 17.4 percent of children below poverty in 1966.

The purpose of the study would be to explore in depth the various factors which influence the poverty rate among children. This would probably include demographic trends, economic factors and government policies and other factors you consider relevant. The study should explain why despite increased government expenditures poverty rates among children have risen. In this exploration, we would expect you:

1. To employ consistent and defensible analytical measures of examining the economic well-being of children, particularly low-income children, and evaluating government policies toward these children. These measures probably would include poverty gap measures, relative measures of poverty, poverty measures using updated food to income multipliers as well as the official poverty definition. The latter should also be adjusted by including food stamps and housing benefits and subtracting taxes.
2. To describe the economic well-being and the level of poverty among children from the early 1960's to 1983 using these different measures. This would also include a description of the economic and demographic characteristics of children below and near poverty.
3. To describe the major federal and state programs which provide income maintenance support to families with children. This would include the actual dollars spent under these programs.
4. To examine various policies which would decrease poverty among children.

It would be our preference that programs which provide health benefits and thus indirectly income support be considered separately.

In doing the study, we would request that you operate under the following guidelines:

1. The study should be completed as expeditiously as possible and by February 15, 1985 at the latest.

2. As you are aware, the Congressional Budget Office is undertaking a related study. We wish you to coordinate with them to the fullest extent possible.

3. As the study progresses, we want you to periodically brief Committee staff and consult with experts both in and out of government to enhance the credibility of the study and provide guidance on major research policy questions.

This is a large and important study. We recognize that in any study it is difficult to reach definitive conclusions. The major focus of this study should be an assessment of governmental policies toward children and the examination of alternative policies which would reduce the level of poverty among children.

Sincerely,

HAROLD FORD,
Chairman, Subcommittee on Public Assistance and Unemployment Compensation.
CHARLES B. RANGEL,
Chairman, Subcommittee on Oversight.

COMMITTEE ON WAYS AND MEANS,
U.S. HOUSE OF REPRESENTATIVES,
Washington, DC, August 10, 1984.

DR. RUDOLPH PENNER,
Director, Congressional Budget Office,
Washington, DC.

DEAR DR. PENNER: We would like to request that the Congressional Budget Office undertake a major study of children in poverty.

As you know, the number of related children under 18 in families in poverty declined from the early 1960's to the mid-1970's but has recently increased so that in 1983 some 13.3 million or 21.7 percent of children were living below the poverty level. This compares to 12.1 million or 17.4 percent of children below poverty in 1966.

The purpose of the study would be:

1. To employ consistent and defensible analytical measures of examining the economic well-being of children, particularly low-income children, and evaluating government policies toward these children. These measures probably would include poverty gap measures, relative measures of poverty, poverty measures using updated food to income multipliers as well as the official poverty definition. The latter should also be adjusted by including food stamps and housing benefits and subtracting taxes.

2. To examine various policies which would decrease poverty among children. The study should describe these policies and determine the cost and effectiveness of reducing poverty using the same measures developed in item 1 above. These policies could include those contained in H.R. 4920 as well as additional policies you consider important.

It would be our preference that programs which provide health benefits and thus indirectly income support be considered separately.

In doing the study, we would request that you operate under the following guidelines:

1. The study should be completed as expeditiously as possible and by February 15, 1985 at the latest.
2. As you are aware, the Congressional Research Service is undertaking a related study. We wish you to coordinate with them to the fullest extent possible.
3. As the study progresses, we want you to periodically brief Committee staff and consult with experts both in and out of government to enhance the credibility of the study and provide guidance on major research policy questions.

This is a large and important study. We recognize that in any study it is difficult to reach definitive conclusions. The major focus of this study should be an assessment of governmental policies toward children and the examination of alternative policies which would reduce the level of poverty among children.

Sincerely,

HAROLD FORD,
Chairman, Subcommittee on Public Assistance and Unemployment Compensation.

CHARLES B. RANGEL,
Chairman, Subcommittee on Oversight.

LETTERS OF SUBMITTAL

Congressional Research Service,
The Library of Congress,
Washington, DC, May 3, 1985.

Hon. Harold Ford,
Chairman, Subcommittee on Public Assistance and Unemployment Compensation.

Hon. Charles B. Rangel,
Chairman, Subcommittee on Select Revenue Measures.

Committee on Ways and Means,
U.S. House of Representatives,
Washington, DC.

Dear Messrs. Chairmen: In response to your joint request of August 10, 1984, I am submitting a comprehensive report on children in poverty. It is entitled "Poor Children: A Study in Trends and Policy, 1959–84." As you requested, it explores in depth various factors that influence the poverty rate among children.

The report is organized around five major questions:

Extent of problem.—What is the size and nature of the problem of income poverty among children?

Noncash income.—How are the counts of poor children changed by treating some major noncash benefits as income?

Causes.—What are the main reasons for the persistence and worsening of poverty among children?

Economic growth.—Will economic growth solve the problem of poor children?

Government benefits.—Why has poverty among children increased despite large spending for need-tested benefits?

A companion study that you requested at the same time from the Congressional Budget Office (CBO) estimates the costs and impacts of a range of policy options for increasing the economic well-being of children and presents alternative measures of poverty.

The CRS study was directed by Vee Burke, with assistance from Joe Richardson. Thomas Gabe and Richard Rimkunas provided the basic income data on which the report is based by analyzing Census Bureau public use tapes covering the years 1968–83. All are members of the Education and Public Welfare Division.

A team of analysts wrote the report, namely: Vee Burke, Kenneth Cahill, Joseph A. Cislowski, Thomas Gabe, Jeanne E. Griffith, Richard A. Hobbie, Bob Lyke, Barbara McClure, Jennifer O'Sullivan, Joe Richardson, Richard Rimkunas, Carmen D. Solomon, Karen Spar, Sharon Stephan, Richard Verdugo, and Joyce Vialet. All are members of the Education and Public Welfare Division except for Jeanne Griffith, a demographer in the Government Division.

We hope this report on poverty among children will be helpful to your subcommittees and to the full Committee on Ways and Means, as well as to other Members and committees of Congress.

Sincerely,

GILBERT GUDE, *Director.*

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, May 21, 1985.

Hon. HAROLD E. FORD,
Chairman, Subcommittee on Public Assistance and Unemployment Compensation.

Hon. J.J. PICKLE,
Chairman, Subcommittee on Oversight.

Hon. CHARLES B. RANGEL,
Chairman, Subcommittee on Select Revenue Measures.

DEAR MESSRS. CHAIRMEN: Enclosed is a copy of "Children in Poverty," which was requested in August 1984 by the Subcommittee on Public Assistance and Unemployment Compensation and the Subcommittee on Oversight of the Committee on Ways and Means. This study, principally prepared by Roberton C. Williams and Gina C. Adams of CBO's Human Resources and Community Development Division, briefly examines existing policies to assist poor families with children, discusses issues involved in modifying them, and analyzes over 40 policy alternatives. (A companion study, prepared by the Congressional Research Service, provides considerably more detail on historical trends in poverty of children and on government programs to help them.)

The paper examines options to expand the resources of poor families with children through direct federal action; to increase their economic independence by enhancing their skills and expanding the number of jobs available to them; to alleviate some of the adverse consequences of poverty by providing a variety of services; and to reduce the number of families who might be poor in the future.

I hope you find this report useful.

With best wishes,

Sincerely yours,

RUDOLPH G. PENNER, *Director.*

Enclosure.

PART I

Poor Children: A Study of Trends and Policy, 1959–1984

OVERVIEW

Children displaced the aged as the poorest age group in 1974, and since then child poverty has grown deeper and more widespread.

The poverty rate reached 22.2 children per 100 in 1983, the highest level since the mid-1960s. The number of poor children totaled 13.8 million, of whom more than half lived in families headed by a woman.

A child's chances of being poor varied sharply by race, presence of the father, and marital status of the mother. Almost half of all black children and more than one-third of all Hispanic children were poor. In contrast, nearly five-sixths of all white children were *not* poor.

From 1978–1983 child poverty rates climbed more rapidly in two-parent families than in female-headed families, somewhat "defeminizing" poverty. Even so, children being raised by their mother alone were four times as likely to be poor as those with both parents at home, and the share of mother-child families climbed in those years to a new peak. Highest poverty rates were those of children with never-married mothers. More than 70 percent of children of never-married mothers, black, white, or Hispanic, lacked enough money to reach the poverty threshold. These children accounted for more than one-eighth of all poor children in 1983.

Without a working parent, a child is almost sure to be poor. But having a working parent is no guarantee against poverty. Many children need *two* earners or cash supplements to one earner's full-time wages if they are to escape poverty. One-fourth of children in married-couple families would be poor if their only income were their fathers' earnings. And black children with two working parents are more likely to be poor than white children with only one (the father).

CHILD POVERTY RATES

Whether poverty is measured before or after Government transfer payments (social insurance and welfare), and whether the income counted includes or excludes non-cash benefits and money paid as taxes, child poverty rates rose especially sharply from 1979 to 1983.

Market income only.—In recent years a rising proportion of children have lacked sufficient family earnings and other private income to escape poverty. More than one child out of four was "poor" in 1983 if Government transfer payments are ignored. In 1974, when children became the poorest age group, the corresponding rate was one child out of five. The climb in "market income" poverty has made it harder and more expensive for Government to overcome poverty.

Total cash (official rate).—Public benefits have failed to fill the growing earnings gap caused by the rise in market income poverty. Accordingly, a rise also has occurred in the share of children who are officially poor, those whose cash income falls short of poverty thresholds even after any social insurance and cash welfare benefits are added to their market income. In 1983 more than 2 children out of 9 were poor on this basis, compared with 2 out of about 13 in 1974.

Cash plus non-cash benefits.—The official count of the poor disregards non-cash benefits, which account for most welfare spending. If food stamps, school meals, subsidized housing, Medicaid, and Medicare are treated as income, the result is to lower the 1983 poverty rate for children by 12 to 28 percent, depending on how benefits are valued. Although addition of these benefits lowers the child poverty rate, it fails to change the upward trend in poverty from 1979 on.

After-tax cash.—The official poverty count also makes no allowance for income and payroll taxes, which reduce income available for general consumption. If these taxes are deducted from family income used to calculate children's poverty rates, the 1982 rate for children is increased by more than 8 percent. Taxes had a larger poverty increasing effect in 1982 than in 1979, reflecting the erosion of the zero bracket amount and the personal exemption in the tax code caused by inflation.

Table 1 shows how the various child poverty rates increased in recent years. The official rate climbed 41 percent from 1974 to 1983, outpacing the rise in the market income poverty rate.

TABLE 1.—TRENDS IN POVERTY RATES OF CHILDREN

[Number per 100 children]

Income counted	1974	1979	1983
Market income only	19.8	20.2	25.8
Total cash (official rate)	15.7	16.4	22.2
Cash plus major non-cash benefits: [1]			
At minimum value	NA	13.6	19.6
At maximum value	NA	9.7	15.9
After-tax cash	NA	17.2	[2] 23.7

[1] Values depend on valuation method, discussed in Chapter II.

[2] 1982.

Poverty Income Gap of Children

Not only has poverty become more common among children; it has intensified. On the average, the gap has widened between children's share of their family's cash income and their poverty threshold. The income deficit reached $1,149 per poor child in 1983, up 10 percent from 1974 (constant 1983 dollars).

PERSISTENCE OF CHILD POVERTY

Throughout the quarter century for which official poverty data are available, children's share of the poor consistently has exceeded their share of the overall population. However, in 1959 the child poverty rate was about one-fourth lower than that of the aged. Subsequently, poverty rates for both groups decreased. The 1959-1983 decline for the aged, which extended throughout most years of the period, was triple that of children. The incidence of child poverty was cut almost in half during the first 10 years, to a record low of 13.8 related children per 100 in 1969. Thereafter, the trend reversed. By 1983, although it still was below its 1959 level, the child poverty rate had climbed almost 60 percent above its 1969 low and was almost one-half above the 1983 poverty rate for the aged.

SOCIAL WELFARE SPENDING

Federal Government transfer payments have increased sharply since 1965, the start of what the Johnson Administration called its "war on poverty." Most of the expansion was in the form of social insurance payments, which are work-related entitlements, and non-cash welfare benefits. The latter impose an income test and base eligibility on "need." In constant dollars, social insurance spending, primarily for social security, tripled between 1965 and 1983. Selected non-cash welfare spending on programs that this report classifies as "basic" aid (food stamps, subsidized housing, and Medicaid) multiplied 19 times in real terms from very low initial levels. Federal cash welfare spending, however, rose only about 40 percent in real terms. As a share of gross national product (GNP), Federal cash aid declined from 0.70 percent in 1965 to 0.63 percent in 1983. (A drop in the GNP share spent on non-service-connected pensions for veterans more than offset a rise in the share spent on cash aid for other needy persons.)

By 1983, 26 percent of the total Federal budget went to cash social insurance outlays. At $210 billion, these outlays were 10 times the sum spent for cash welfare. Federal cash welfare outlays peaked in 1976 in real terms and by 1983 had dropped 19 percent below that record level. In contrast, basic non-cash Federal welfare spending rose in all years except 1982, and in 1983 such outlays totaled $40 billion, almost double the $21 billion spent on cash welfare.

VULNERABLE CHILDREN

The data show that family type and race have profound impact on poverty rates. In 1983 most children in female-headed families were poor. If the mother was a widow, the likelihood of poverty was three times as great as if she were married. If the mother had never married, the likelihood of poverty was almost six times as great as if she were married.

Compared with a white child, a black child

—was almost 12 times as likely to have a never-married mother,

—was 2.5 times as likely to have a separated or divorced mother, and

—was 3.5 times as likely to have a widowed mother.

About one-half of all black children and one-fourth of Hispanic children, compared with 15 percent of all white children, were in female-headed families. Overall, a black child was almost three times as likely to be poor as a white child in 1983 (in 1956, the poverty rate of black children had been four times that of white children). An Hispanic child was more than twice as likely to be poor as a white child in 1983. As Table 2 shows, for each type of family the 1983 black poverty rate exceeded that of whites, and for all except children of widows the Hispanic rate exceeded that of blacks. The racial variation in rates was smaller for children of never-married mothers, all of whom had very widespread poverty. For both blacks and Hispanics, the poverty rate for children living with their fathers was double that for comparable white children.

TABLE 2.—POVERTY RATES PER 100 CHILDREN BY FAMILY TYPE AND RACE—1983 [1]

Children	Black	White	Hispanic	All children under 18 years
Total	46.7	17.3	38.2	22.2
In female-headed families (total)	68.5	47.6	70.5	55.8
Mothers:				
Never married	77.2	71.3	85.8	75.1
Separated or divorced	66.8	47.3	70.1	53.5
Widowed	60.7	27.9	38.9	41.1
In male-present families	23.8	11.9	27.3	13.5

[1] These rates refer to all children under age 18 and differ from those for related children, which are used in this report for trend data. See Chapter II, part 3, for definition.

Other conditions associated with high rates of child poverty include age of parent, age of youngest child, size of family, and education of parents. Poverty rates are twice as high when the mother is 20–24 years old as when she is 40–44, both for married-couple and single-parent families. Poverty rates for female-headed families are 19 percent higher when the youngest child is under 6. Incidence of poverty among families with five or more children is almost four times higher than among families with no more than two children.

The poor child population includes about 40 percent of children whose mother and father both failed to complete high school, but only 7 percent of those whose parents each received a diploma.

HOUSEHOLD COMPOSITION

"Feminization of poverty" is a newly popular phrase, but, as applied to children, it describes a condition at least as old as official poverty data. Children raised by mothers alone traditionally have had very high rates of poverty and have represented a disproportionately large share of the Nation's poor children. However, from 1978–1983, a period frequently marked by recessions and unemployment, the share of the Nation's poor children in female-headed families decreased. This was because the poverty rate climbed more rapidly in the much larger group of male-present families, who generally obtain a larger share of their income from the market than female-headed families. The number of officially poor children increased by 3.6 million during these years, and 2.6 million of them were in families with a man at home. By 1983 there were almost as many poor children in male-present families as in female-headed ones. Five years earlier, when the share of poor children in female-headed families had peaked, such poor children outnumbered those in male-present families by 1.4 to 1.

The number of female-headed families with children rose 160 percent from 1959–1983, but the number of male-headed families with children increased only 7 percent. By 1983 one of every five families with children was headed by a woman; in 1959 the share was 1 out of 11. If the proportion of children in female-headed families had not increased during the past 25 years, it is estimated that the number of poor children in 1983 might have been almost 3 million, or 22 percent lower, than it actually was.

Components of growth in the number of mother-child families have differed at different times. During the decade of the 1970's, when the growth rate accelerated, one-fourth of the increase was due to population growth and one-fourth to increased marital dissolution, primarily divorce. Another one-sixth was attributable to a rising proportion of births out of wedlock, and one-tenth to a rise in the share of family breakups that encompassed children. Of the remainder (roughly 25 percent), about one-fourth was due to the trend for mother-child families to live in their own households rather than as a "subfamily" in another household. The rest was not explained by any of these factors.

Fifty-one percent of the 13.8 million poor children in 1983 were in female-headed families. Of all poor children, 32 percent had separated or divorced mothers; 13 percent, never-married mothers; 5 percent, widowed mothers; and 2-percent, married mothers whose spouse was absent. The rest were in male-present families.

Although the rate of change in family composition was most rapid in the decade of the 1970's, the changes are rooted in older patterns. Age of marriage, rates of divorce, and childbearing outside of marriage have changed for several decades. Divorce rates, for example, have been on the rise throughout the 20th century. Birth rates to unmarried teenagers have increased steadily since at least 1940 and in 1980 were almost four times as high as in 1940 (27.6 per 1,000, compared with 7.4).

DYNAMICS OF POVERTY

Studies that follow families over time have found that about two-thirds of children who are ever poor (on an annual basis) during a 15-year period remain in poverty for no more than 4 years. However, one poor child out of seven stays poor for at least 10 of the 15 years and can be considered "persistently" poor. These children spend two-thirds or more of their childhood in poverty.

Families who experience short-term poverty are demographically similar to the population as a whole, although blacks and female-headed families are somewhat overrepresented. Persistently poor children have a different profile—90 percent are black. A significant majority lack a father at home and live in the South. Further, they are disproportionately rural.

The dynamics of childhood poverty differ markedly between black and white children. For example:

—45 percent of black children are born into poverty, but 15 percent of white children are born poor.

—The average black child can expect to spend more than 5 years of his childhood in poverty; the average white child, less than 10 months.

—Much of white poverty is short term and associated with changes in marital status or family earnings.

—Black poverty lasts longer and is less affected by changes in family composition.

A drop in earnings of a family member precipitates more than half of all episodes of childhood poverty and nearly two-thirds of those for children in male-headed families. For children in female-headed families, however, more than 40 percent of spells of poverty commence with the creation of a female-headed family itself. Declines in earnings of a family member account for slightly more than one-fourth of the spells of childhood poverty in mother-child families.

Higher family earnings are the primary route out of poverty for children. Increased earnings account for 91 percent of poverty exits by children in male-headed families, and for 60 percent of poverty exits by children in female-headed families. Persons other than the family head earn a significant part of the increased income that lifts the children out of poverty (almost one-third of poverty exits made by male-headed families, and more than one-half made by female-headed families, are associated with higher earnings of a family member other than the head).

MARKET INCOME AND POVERTY

From 1978–1983 the incidence of market income poverty among children climbed almost 30 percent, reflecting the relatively high unemployment and, to a lesser extent, the price inflation that prevailed during much of the period. High unemployment depresses earnings, the primary source of family income; price inflation drives up the poverty thresholds, which are adjusted yearly for changes in the Consumer Price Index. In 7 of the last 12 years average wages failed to rise as fast as the poverty yardstick.

Although the general demand for labor may be a more important determinant of family earnings than characteristics of individual workers, some families have less opportunity to work and some have lower potential for earnings than others.

Those with a high probability of having subpoverty earnings include: families with no full-time earner, families headed by mothers who failed to finish high school, and married-couple families with fathers who failed to finish high school. High school dropouts have lower hourly earnings than graduates.

If a child has only one parent with a full-time, year-round job, the chances are about 1 out of 10 (in a married-couple family) or more than 1 out of 9 (in a mother-child family), that he will be poor. Even in married-couple families where *both* parents work more than 2,000 hours a year, the likelihood of child poverty is almost 3 percent.

In all, more than 2.5 million children with at least one parent who worked more than 2,000 hours a year in 1982–1983 were poor. They represented more than one-sixth of all poor children in 1983, including one-third of all poor children in married-couple families.

Black fathers typically work fewer hours than white fathers, and when they do work, they receive lower hourly wages. Black married mothers work more, on average, than their white counterparts and receive about the same wage rates. Black mothers in married couples earn more than such white mothers, but their larger earnings do not fully offset the lower earnings of black fathers. White single mothers work more hours than white married mothers; black single mothers, however, work fewer hours than black married mothers.

For both married and single mothers, hours worked increase with age of the mother and of her youngest child; they decrease with the number of children.

Composition of family income differs by family type. However, as Table 3 shows, except for families of widowed mothers, all family types relied on earnings in 1982–1983 for more than half of total income.

TABLE 3.—SHARE OF INCOME EARNED, ALL FAMILIES WITH CHILDREN, BY FAMILY TYPE, 1982–1983

Type of family	Earnings as percent of family income [1]	Number of poor children per 100
Married-couple family	92.6	12.4
Female-headed family of:		
Never-married mother	64.0	77.5
Separated or divorced mother	74.2	52.2
Widowed mother	44.4	36.5

[1] Calculated on basis of Census Bureau poverty definitions, applied to 1982–1983 data. See Tables 4–3 and 4–4 (Chapter IV).

In married-couple families, mothers generally earned about one-fourth as much as fathers. Child poverty rates were inversely related to the share of family income earned, except for families of widowed mothers.

In married-couple families, almost one out of four children would have been poor in 1982–1983 if they had received no income except fathers' earnings. In female-headed families more than two-thirds of the children would have been poor if their only income had been mothers' earnings. About 40 percent of widowed mothers received about half of their family income from social security.

ECONOMIC GROWTH AND INCOME DISTRIBUTION

The poor can benefit either directly or indirectly from improved economic conditions. Economic growth brings job opportunities directly to some who are poor. Further, high employment generates more Government tax revenue, which can be used to increase transfer payments to some with inadequate earnings.

However, the capacity of economic growth to reduce the incidence of poverty among children appears to have been diminished by growing inequality in the distribution of family income relative to poverty thresholds.

The question of income distribution is laden with both emotion and value judgments. This report does not argue for or against a more nearly equal distribution of income, a choice that is reserved to the Congress. It merely notes shifts in the distribution of income and their effects on the poverty rates of children.

In 1983 the average income of families with children was $25,283. The average ratio of family income to poverty thresholds (which are adjusted for family size) was 2.48. Thus, the average family's 1983 cash income was more than double its poverty threshold. The distribution of family income was more unequal in 1983 than in 1968. For example, the share of income of the top fifth of families with children (ranked by the ratios of family income to poverty thresholds) was 8.0 times that of the bottom fifth in 1983. This compares to 4.6 in 1968.

From 1968 to 1983 average earnings and other market income of families with children, whether headed by a man or woman, rose relative to their poverty thresholds, which reflect changes in prices as well as in family size. These market income gains were much sharper for blacks than whites and for men than women. In the case of governmental cash transfers, the other source of money income for families, only male-headed families achieved gains relative to poverty thresholds. Their primary transfer payments were in the form of social insurance. For female-headed families, the ratio of cash transfer income to the official poverty threshold declined, reflecting erosion of welfare benefits by price inflation.

If every family had experienced the average 1968–1983 change of its type (by race and gender of family head) in the ratios of market income and cash transfer income to poverty thresholds, the 1983 poverty rates for all family types would have been much lower than they actually were. If the income gains of white fathers had been evenly distributed among white male-headed families with children, the incidence of poverty among such families would have been cut by one-third from 1968 to 1983. Instead, because the distribution of the income gain was unequal, rather than equal, the actual poverty rate *rose* by more than one-half. For families of black men the relative income gain, if distributed equally among all such families, would have cut the poverty rate by almost one-half, but the actual cut was only one-eighth. Similar but lesser changes would have occurred for families headed by women.

According to simulations done by Professor Peter Gottschalk (Bowdoin College) and described in Chapter V, economic growth cannot be expected to reduce the rate of poverty for families with children very rapidly. The estimates suggest that unless there is a reversal of the trend toward inequality of distribution of family income relative to poverty thresholds, it might take as long as 12 years (with an unusually high 3 percent annual growth rate in average market income relative to poverty thresholds) for the poverty rates of male-headed families with children to drop back to the levels of 1979. For nonwhite female-headed families, the simulations indicate that it might take 5 years.

Government Transfer Spending

The incidence of child poverty rose 52 percent in the decade from 1973 to 1983, when Federal spending for income security climbed 83 percent in constant dollars.

Why did child poverty rise in the face of a continued increase in these outlays?

The answer is that the increase in income security spending did not extend to cash outlays for poor children. Most of the extra spending for income security was in the form of social security cash payments, which climbed from $101 billion in 1973 to $171 billion in 1983 (constant 1983 dollars). About two-thirds of social security's 36 million beneficiaries in 1983 were at least 65 years old, and the program's inflation-adjusted benefits, plus those of the Supplemental Security Income program for the needy aged (and blind and disabled) helped to cut the aged's poverty rate by 13 percent during the decade.

In contrast to the growth in real spending for the aged, Government spending declined in real terms for social insurance payments and cash welfare benefits to children who were poor without such aid. Adjusted for price inflation, aggregate cash payments for such poor children were about six percent smaller at the end of the decade than at the beginning. This was so even though the number of children poor before transfers grew by almost 4 million during the decade. The rise in the incidence and severity of market income poverty among children was so large that real cash transfers would have had to rise substantially to compensate. Instead, these transfers declined in terms of constant purchasing power.

The primary social insurance program aiding families with children is social security. In 1983, the program paid $10.5 billion to children and parents. This exceeded by 40 percent the Federal sum spent on benefits to families enrolled in the cash welfare program, Aid to Families With Dependent Children (AFDC). A minimal estimate is that $3.5 billion of the social security benefits—about one-third—went to children whose families' earnings left them poor.

The four basic welfare programs for children—AFDC, food stamps, Medicaid, and subsidized housing—showed different trends in spending and in coverage of the poor.

The share of poor children served by AFDC and the food stamp program declined. The average monthly number of children enrolled in AFDC fell 11 percent during the decade, despite a sharp rise in the number of pre-welfare poor children. The result was that the number of AFDC children (some of whom may not have been poor on an annual basis) per 100 pre-welfare poor children fell from 73 to 50. The fraction of poor children who received food stamps in a survey month dropped from 76 percent in 1978 and 79 percent in 1980 to 69 percent in 1983. However, the share of poor children covered by Medicaid was unchanged from 1979 to 1983 at almost one-half, and the share of poor households with children that received subsidized housing rose from 15 percent in 1977 to 16 percent in 1981.

In recent years both the Food Stamp program and Medicaid have concentrated more of their benefits on "very poor" children, those whose annual family income is below 50 percent of their poverty thresholds. The share of food stamp households (with children) who were very poor more than doubled from 1980 to 1982, reaching 49 percent. Similarly, the proportion of Medicaid children who were very poor rose from 24 percent in 1979 to 39 percent in 1983. Moreover, the share of the Nation's very poor children with Medicaid coverage climbed to 54 percent in 1983, up one-eighth from 1979.

Unlike AFDC, food stamp and Medicaid outlays generally increased in constant dollars over the decade, except for a downturn in 1982. Subsidized housing benefits grew steadily. Social security outlays for children and their parents fell 19 percent in real terms, reflecting child population decline and phaseout of student benefits.

Maximum benefit levels and income limits for AFDC, Medicaid, and subsidized housing are unrelated to poverty thresholds. Maximum food stamp benefits, however, are so linked. They equal the adjusted price of the Thrifty Food Plan, which is roughly one-third of the poverty thresholds for most families.

States set maximum AFDC benefits, which vary widely, and they pay 46 percent of their aggregate cost. The food stamp maximum benefit schedule is uniform, and benefits are fully federally funded. Since food stamp benefits vary inversely with cash income, families without market income in low-benefit AFDC States receive larger food stamp benefits than those in high-benefit States. AFDC benefits have been eroded by inflation, and some of the cash benefit loss has been offset by food stamps. The maximum AFDC benefit of the median State (ranked by benefit levels) fell about one-third from 1971 to 1985 in constant dollars.

WELFARE POLICY AND THE RISE IN FEMALE-HEADED FAMILIES

By Federal law, AFDC is available only to needy children in single-parent families, unless the second parent is incapacitated, underemployed, or unemployed. Most States do not offer AFDC to unemployed two-parent families, no matter how needy they are.

When AFDC was enacted, 88 percent of families that received State welfare were needy because the father had died. AFDC benefits were intended to help the widow care for her children at home. But as time passed, the percentage of AFDC enrollees who were widows and paternal orphans shrank to a tiny minority. In March 1979 fewer than 3 percent of AFDC children were paternal orphans. And in March 1983 more than 88 percent of the children had able-bodied but absent fathers; furthermore, the fathers of 47 percent of AFDC children were not married to their mothers.

Over the years there has been concern that concentration of AFDC benefits on fatherless families, and the program's exclusion of needy families with full-time jobs, may have inadvertently encouraged family breakup and unwed parenthood.

For both black and white teenagers, the proportion of premaritally conceived births increased from 1959 to 1978. At the same time a declining percentage of these unwed pregnant young women became married before the baby's birth. Some observers have maintained that welfare rules have discouraged marriage.

The most complete analysis of AFDC's effects on family structure (discussed in Chapter III) found that AFDC has had a dramatic impact on the living arrangements of young single mothers, increasing the proportion who set up their own households. The study found that unmarried mothers in high-benefit States were much more likely to live in a separate household than those in low-benefit States. The study also found that benefit levels had a "relatively modest effect" on divorce and separation rates, primarily among young married mothers, but that they had no effect on childbearing decisions of unmarried women at any ages.

The Seattle-Denver income maintenance experiments, which provided unconditional cash assistance (and offered separate payments to both halves of a couple that split up), *increased* the rates of family breakup among families, with or without children, who received job counseling or education subsidies in addition to cash aid. (In this study, "families" included unmarried couples with children who lived together on a continuing basis.) For families with children who received only cash aid, however, the payments apparently *decreased* rates of family breakup, according to an analysis recently reported.[1] Whether the difference was due to presence of children or to lack of noncash services, or both, was not clear.

Some researchers have called for renewed attention to the rise of joblessness among young black men, which they consider to be a major cause of the long-term steady increase in female-headed households. The cause of the rise in joblessness is unclear. Study is needed to examine at least two hypotheses: (1) that demand might be low for young black male workers, and (2) that they might be less willing to work than young black men in earlier years.

ISSUES FOR STUDY

The interaction of wage rates, unemployment rates, welfare benefit levels, and categorical eligibility rules affect children's economic status in ways not yet understood. Among the major questions that need exploration are the following:

Why has the distribution of earnings relative to poverty thresholds become increasingly unequal for families with children? Is a polarization occurring between high and low earners (within each racial and sex group)? Why has there been a general rise in the proportion of persons with low earnings?

Does poverty among young adults, especially among high school dropouts, result from a change in employers' willingness to hire those without credentials, or from change in skills required for today's jobs, or from a decline in motivation and skills of the young people?

What is the status of the one-half million poor children not in related families? How many are themselves heads of families?

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[1] Aaron, Henry. Six Welfare Questions Still Searching for Answers. The Brookings Review. Fall 1984. p. 15.

Why are poverty rates of children in two-parent black families double (and those of Hispanic families more than double) those of their white counterparts?

To what extent is the rise in black female-headed families due to low job demand for, or changes in the labor supply of, young black male adults?

Why do black single mothers work fewer hours than white single mothers, and black married mothers work more hours than white married mothers?

What is the relative importance of the various factors that influence hours worked and wages earned by parents?

What is the impact of racial discrimination upon earnings of families with children?

In summary, the incidence and intensity of poverty among children reflect demographic, economic, and social conditions, along with public policies about transfer payments. The relative importance of these factors and the ways in which they interact are complex and not well understood.

CHAPTER I. INTRODUCTION: PURPOSE AND SCOPE OF STUDY

Child poverty is a persistent problem and for many years has been growing. In the 1973-1983 decade an extra eight children per 100 were added to the poverty population, lifting the child poverty rate to 22.2 per 100. This was the highest rate since the mid-1960s.

As a result of the sharp rise in incidence of their poverty, the number of poor children rose by 4 million over the 10-year period, even though the Nation's total child population shrank by six million.

This study explores the growth of poverty among children at the request of the Subcommittee on Public Assistance and Unemployment Compensation and the Subcommittee on Oversight of the House Ways and Means Committee. The report examines the problem of poverty among children and seeks major causes for its persistence, and for its marked rise from 1978 to 1983.

This report is a companion study to one by the Congressional Budget Office (CBO) that was requested at the same time by the subcommittees. CBO was directed to develop alternative poverty indexes and to estimate the costs and impacts of a range of policy options for reducing poverty among children.

This report deals only with income poverty, the condition of having income below the official poverty threshold. It does not examine a range of other kinds of poverty sometimes cited by economists, such as "education poverty," "health poverty," or "transportation poverty," nor does it discuss the possible effects of income poverty upon a child's health, education, aspirations, work ethic, and the like.

This report is organized around five major questions:

Extent of problem.—What is the size and nature of the problem of income poverty among children? Chapter II presents 1983 data and 1959-1983 trend statistics. It examines poor children by family type, by age, by race. It shows how much more money children needed to cross over the poverty threshold in 1983 (their poverty income gap), what part of the Nation's total poverty gap was related to children, and how this has changed over time. It also contrasts the persistently poor from those in relatively short-term poverty.

Noncash income.—How are the counts of poor children changed by treating some major noncash benefits, such as food stamps, as income. To what extent do food, housing, and medical benefits fill the poverty income deficit? How much higher are poverty rates if they are determined on the basis of after-tax income rather than pre-tax income? Chapter II presents data showing the extent and nature of child poverty after addition of major noncash benefits and payment of taxes.

Causes.—What are the main reasons for the persistence and worsening of poverty among children? Chapter III examines the relationship between demographic variables, and trends in childhood poverty. It focuses on household composition, marital status of parents, race, and size of family, and relates changes in these factors to long-term trends in the total population. Chapter IV examines types of families with children that tend to have subpoverty earnings and identifies factors associated with their low earnings.

Economic growth.—Will economic growth solve the problem of poor children? Chapter V studies this question and provides data about the trends in distribution of income from wages and property (market income) among families with children.

Government benefits.—Why has poverty among children increased despite large spending for need-tested benefits? Chapter VI explores trends in spending for income benefits to children poor without them. It examines basic benefit programs that aid children: Aid to Families with Dependent Children (AFDC), social security, food stamps, Medicaid, and subsidized housing. All but social security impose a test of low income and assets.

Finally, nine appendixes provide additional information, as follows:

Appendix A. Additional details about basic welfare programs aiding children and their families: AFDC, food stamps, Medicaid, and subsidized housing.

Appendix B. Description of supplemental cash and noncash programs aiding some needy children. Benefits include child nutrition, foster care, day care, medical services, and child support enforcement.

Appendix C. History of Federal employment and training programs.

Appendix D. AFDC and work: Brief history and current provisions of the law.

Appendix E. Chronology of major congressional action on children's benefits, 1960–1984.

Appendix F. Discussion of the income distribution.

Appendix G. Bibliography.

Appendix H. Regional and State child poverty data.

Appendix I. Support tables providing data for charts in the report.

Method of study

To carry out the study, CRS analyzed Census Bureau income data on 2.5 million persons for the years 1968 through 1983. The data file that CRS amassed provides more information about the economic status of children, in more detail, than had been brought together before. And because consistent definitions were applied to the data, to compensate for changes in survey terms used over the years, the data series was more reliable.

Using the child as the unit of analysis, the study undertook many tasks. They included:

—Determining the poverty status of children before and after social insurance benefits, and before and after welfare benefits.

—Calculating the poverty income deficit of children year by year.

—Exploring changes in family composition and their impact on children's poverty.

The study used Census Bureau income data to explore in detail the 1982–1983 earnings of fathers and mothers in married-couple families and of mothers raising children alone, and to relate their earnings to many factors, including age, completion of high school, size of family, and race. It examined the extent to which the poverty of families with children has been affected by a general rise in the proportion of persons with low earnings over the years.

The study has confirmed many previous understandings about child poverty, yielded some new insights, and identified several areas that need further examination.

[Note.—All tables and charts in the report were prepared by the Congressional Research Service, except for Tables 5–4 through 5–6. Income data are from Current Population Surveys conducted each March by the Census Bureau and from the Panel Study of Income Dynamics conducted annually by the Survey Research Center of the University of Michigan.]

CHAPTER II. DEFINITION, DESCRIPTION, AND DYNAMICS[1]

1. Introduction

Who are the poor children? How severe is their poverty? How many children are poor for a large part of their childhood?

This chapter answers such questions by examining Census Bureau data and reviewing some recent findings about how families enter and leave poverty. It first discusses the official measure of poverty and shows how the count of the "poor" is changed if more than cash income is counted, or if after-tax income is used rather than pre-tax.

It then describes poor families with children in 1983, the last year for which there are reliable national data, and reports trends in childhood poverty over the period 1959–1983.

Finally, the chapter concludes by reviewing research on the dynamics of poverty among children, which is based on a representative sample of U.S. families followed for 10 years. This perspective provides insights into the duration and severity of poverty, and on the events that are associated with transitions into and out of poverty.

2. Definition of Poverty

CURRENT CENSUS BUREAU DEFINITION

The set of poverty thresholds computed annually by the Census Bureau date back to the early sixties. These levels are used in the Federal Government's official count of the low-income population; they do not automatically determine an individual's eligibility for needs-tested benefit programs and are not used in any way by cash welfare programs.[2]

Developed in 1961, the original thresholds represented three times the annual cost of the USDA's economy food plan for a family. The food plan specified quantities of food groups that together met nutritional goals (Recommended Daily Allowance) and reflected food used by low-income households. Consumption surveys in the late fifties showed that food costs represented roughly one-third of an average family's after-tax cash income. Accordingly, the annual cost of the economy food plan was multiplied by three to represent an annual "needs" level or poverty threshold. These

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[1] Richard Rimkunas wrote parts 1–4 of this chapter, and Kenneth Cahill wrote part 5. Mr. Rimkunas prepared the computer graphs.

[2] Program eligibility for means-tested programs varies from program to program. Those non-cash benefit programs which do relate eligibility to poverty use the Federal income poverty guidelines, which are derived from the Census Bureau's poverty thresholds. See Table 2–1. For information about eligibility rules in means-tested programs, see U.S. Library of Congress. Congressional Research Service. Cash and Non-Cash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY 1981–1983. [Compiled by Vee Burke]. Washington, DC, June 1984. CRS Report No. 84–99 EPW.

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family income thresholds were further adjusted for the size of the family. The thresholds are updated annually by the change in prices as measured by the Consumer Price Index (CPI-U).[3] Table 2-1 provides the poverty thresholds for selected family sizes for 1983 and 1984.

TABLE 2-1.—SELECTED POVERTY THRESHOLDS FOR FAMILIES

Size of family	1983 poverty thresholds	Estimated 1984 poverty thresholds [1]	1985 Federal poverty income guidelines [2]
One person (unrelated individual)	$5,061	$5,280	$5,250
Two persons	6,483	6,760	7,050
Three persons	7,938	8,280	8,850
Four persons	10,178	10,610	10,650
Five persons	12,049	12,560	12,450
Six persons	13,630	14,210	14,250
Seven persons	15,500	16,160	16,050
Eight persons	17,170	17,900	17,850
Nine or more persons	20,310	21,170	19,650

[1] These poverty thresholds were derived by increasing the 1983 thresholds by a factor of 1.04256, which reflects the 4.3 percent change in the average annual Consumer Price Index between 1983 and 1984. These estimates may differ by a few dollars from the thresholds that will be published in the advance report on the 1984 poverty population, which is planned for release in August 1985 by the Bureau of the Census.

[2] Derived from the 1984 Census Bureau thresholds. Used by some benefit programs in determining eligibility or targeting aid. See Federal Register, Volume 50, No. 46, Mar. 8, 1985, 9517–18.

Source: Department of Commerce, Bureau of the Census, Jan. 23, 1985.

Official poverty statistics are based upon annual *cash* pre-tax income.[4] Cash income includes income from earnings, interest, public and private pensions, child support and alimony (all classified as "market income" in this report); social insurance programs such as social security and unemployment compensation; and cash welfare income from programs like Aid to Families With Dependent Children (AFDC).

Yearly poverty statistics reported by the Census Bureau (Series P-60 reports) are based on the March Current Population Survey (CPS), which includes a survey supplement on income of the previous calendar year. Estimates of poverty are derived from this sample of the noninstitutionalized civilian population by comparing a family's pre-tax cash income to its poverty threshold.

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[3] For a short period the annual update of the thresholds reflected food price changes only. The original article detailing the logic of the mathematical manipulations at the heart of the threshold can be found in Mollie Orshansky, Counting the Poor: Another Look at the Poverty Profile. Social Security Bulletin Jan. 1965. p. 3-29. One of the first articles looking at the extent of poverty among children using a similar concept of poverty was Mollie Orshansky, Children of the Poor, Social Security Bulletin, July 1963. p. 3-13.

[4] This pre-tax cash income is reported by survey respondents. As a result of this self-reporting, there is some under-reporting, of the type and amount of income for some families. Part 5 of this chapter provides additional detail about this issue, when it compares poverty rates estimated from the Panel Study of Income Dynamics to the CPS estimates.

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ALTERNATIVE MEASURES OF INCOME AND POVERTY

NON-CASH BENEFIT INCOME

Recently, there has been discussion that pre-tax cash income alone provides an incomplete picture of the economic condition of families and individuals.[5] Some critics argue that failure to count non-cash benefits ignores an important kind of income that alleviates hardships of some low-income persons. It is also argued that basing poverty counts on cash income only has become more misleading as non-cash benefit programs have grown. If non-cash benefits were incorporated into families' income to determine their poverty status, the poverty count would be lower. It should be noted, however, that the failure to count non-cash benefits made less difference at the time the official poverty definition was established, since non-cash benefits then were relatively small. (There also are disputes about the poverty threshold itself. Some propose to update it, some to replace it with a relative measure. For discussion and examples, see the companion study by the Congressional Budget Office.)

DEDUCTION OF TAXES

Although the poverty thresholds are based upon after-tax consumption patterns (i.e., the after-tax purchase of food), pre-tax cash income is compared to the poverty thresholds to determine who is poor.

Ignoring taxes is inconsistent with the original concept of the threshold. The basis for the current poverty threshold is the amount of after-tax income needed to purchase necessary amounts of food. Originally, the failure to account for taxes was thought to have a small impact on the count of poverty. Families below the poverty threshold were considered to pay minimal or no income taxes, and payroll taxes for many years were small. For example, between 1975 and 1979, the Federal income tax threshold for a family of four—the level of income needed before a family would pay any Federal income taxes, was above the poverty level for this same family. (See Chart 2.1.) By 1981 however, the income tax threshold fell below the poverty threshold, requiring some poor families to pay Federal income taxes.[6] Chart 2.1 shows the relationship between the poverty and income tax thresholds over time, for a family of four.[7] The shaded area on the chart indicates years in which the income tax threshold is below the poverty threshold (i.e., when some poor families would be subject to Federal income tax). This chart shows that in most years poor families of four were subject to income tax, which reduced their disposable income. The relationship between the income tax threshold and the poverty threshold varies with the size of the family.

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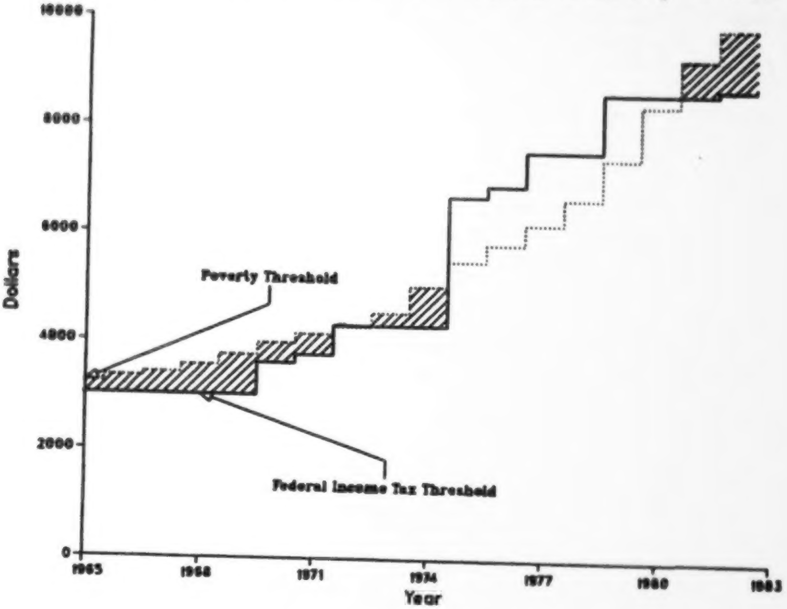
[5] Anderson, M. Welfare. Hoover Institution Press, Palo Alto, 1978. Congressional Budget Office. Poverty Status of Families Under Alternative Definitions of Income, Background Paper #17 (revised). Washington, U.S. Govt. Print. Off., 1977. Smeeding, Tim. The Anti-Poverty Effect of In-Kind Transfers: A 'Good Idea' Gone Too Far? Policy Studies Journal, Mar. 1982. p. 499-522.

[6] The Federal income tax threshold may not fall farther below the poverty threshold in the future as a result of indexation of Federal income tax brackets.

[7] This threshold for four assumes a married couple filing jointly with dependent children. Full use of the earned income tax credit is assumed. Source: Subcommittee on Oversight. Ways and Means Background Material on Poverty, p. 146.

CHART 2.1

Comparison of Poverty Threshold and Federal Income Tax Threshold for a Family of Four



Note: Appendix I provides data for this chart and others in the report.

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METHODS OF VALUING NON-CASH INCOME

The alternative measures of poverty reported below rely upon valuation techniques developed for the Census Bureau. The Congressional Research Service (CRS) prepared estimates from the March 1980 to March 1984 Current Population Survey data tapes prepared by the Census Bureau. The data tapes provide valuation of numerous non-cash benefits and estimates of Federal and State income taxes, as well as payroll taxes.[8]

The Census Bureau uses three different methods to value in-kind benefits: the market value; the recipient or cash equivalent value; and the poverty budget share value. The market value approach assigns a dollar value to a benefit equal to what it would cost in the private market. For food stamps and medical benefits these market value estimates correspond to the actual government expenditures for benefits. On an individual basis the value of food stamps for a family is equal to the dollar value of the food stamps. For Medicaid and Medicare, income for an individual is equal to a per capita share of the total Medicare or Medicaid benefits adjusted for an individual's "medical risk category." For public housing, the market value is equal to the difference between the actual rent paid by low-income families and the rent the family would have to pay without any Federal subsidy.

The recipient or cash equivalent value represents the amount of cash an individual would accept in lieu of the in-kind benefit. Economic theory suggests that individuals should be willing to accept a lesser amount of cash than the actual market value of an in-kind benefit. This is because cash permits individuals to consume whatever goods would maximize their own utility. Therefore, the cash equivalent approach normally produces a lower dollar value for in-kind benefits.

Finally, the poverty budget share value is based upon the idea that non-cash benefits represent a particular share of a low-income family's budget. For example, the surveys that were used in the calculation of the poverty threshold showed that low-income families on average spent about one-third of their income on food. Thus, the poverty budget share methods of valuation puts a ceiling on the value of food stamps at one-third of the family's income. Additional shares are calculated for the other benefits.

The market value method results in the lowest poverty rates, and the recipient value method, the highest. This report provides estimates of poverty rates that use all three valuation techniques.

While the official poverty data, by excluding non-cash benefits, may understate the income of the poor, it also may overstate their income by ignoring the taxes they pay. The alternative poverty counts presented in this chapter include estimates of Federal income tax, State income taxes, and payroll taxes paid by families with children. The method of estimation for taxes was developed by the Census Bureau.[9] Estimates of taxes paid by families in 1983 were not available in April 1985. As a result, the most recent after-tax estimates presented here are for 1982.

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[8] Full details of the methods used in these valuation techniques can be found in U.S. Department of Commerce. Bureau of the Census. Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measures of Their Effect on Poverty, Technical Report 50.

[9] For details on the estimation technique of these taxes see U.S. Department of Commerce. Census Bureau. Estimating After-Tax Money Income Distributions Using Data from the March Current Population. Survey Series P-23, No. 126.

3. Poor Children In 1983

Children Versus Other Age Groups

INCIDENCE OF POVERTY

A note on a definition of a "child"

Typically, we think of a child as anyone under the age of 18. But this definition ignores the child's relationship to other persons in the family. Is the child living with one or both parents? Is the child living with a grandparent or other relatives? Is the child the head of the family? Since each of these relationships has some impact upon a child's well-being, this paper uses concepts of the child that correspond to these family relationships. It uses the term "all children under 18" to refer to anyone under 18, regardless of family relationship. A "related child" means a person under the age of 18 who is not the head of a family or the spouse of the head, but is living with other family members. These other family members might include parents, brothers and sisters, grandparents, and other relatives. The Census Bureau's trend data for children use this definition. "Own related child" refers to a person under the age of 18 living with one or both parents. In 1983, 98.8 percent of all children under 18 were related children, 92.7 percent were own related children.[10]

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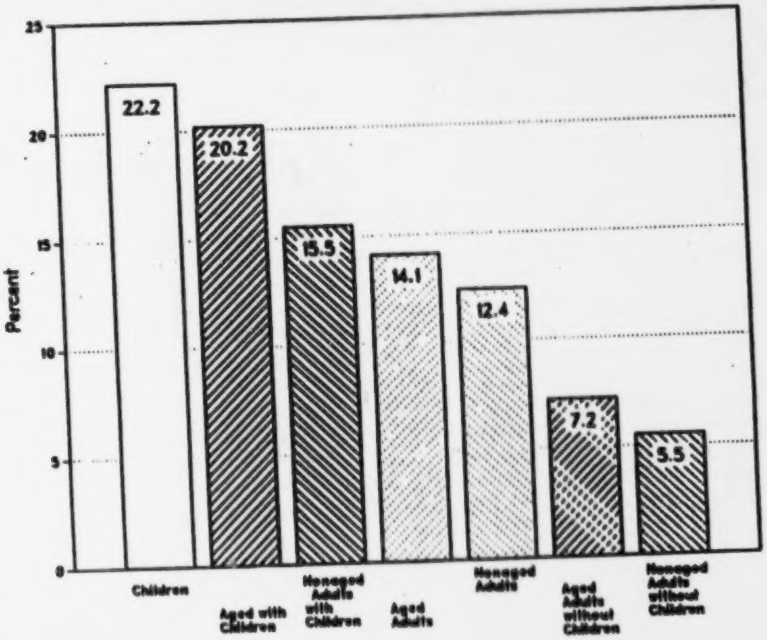
[10] Two additional family relationships are helpful in describing children, those children who are the head of their own family (teenage parents), and those children who live as unrelated individuals. These two groups represent very small shares of the child population and will not be discussed in this section.

CHART 2.2

Comparison of Poverty Rates by Age and Family Status: 1983



Cash income

Children are more likely to be poor than other age groups. In 1983, the poverty rate for all children was 22.2 percent (for related children the rate was 21.7); for the aged it was 14.1 percent; for nonaged adults, 12.4 percent. As shown in Chart 2.2, families with children tend to have a higher incidence of poverty than families without children. Further, adults living in families with children are nearly three times more likely to be poor than adults living in families without children.

Non-cash income

Counting major non-cash benefits (food stamps, school lunches public or other subsidized housing,[11] Medicaid and Medicare) as income changes the incidence of poverty among these various age groups. Table 2-2 provides estimates of the poverty rates in 1983 for adults and children using various income concepts. Two conclusions emerge from the table. First, no matter what method of valu-

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[11] Includes low-rent public housing, rental subsidies under Section 8 and Section 236, and rent supplements. See Chapter VI and Appendix A for information about these programs, food stamps, and Medicaid.

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ation is used, the poverty rate of children is reduced less than that of the aged, but more than that of the nonaged (adults between 18 and 64 years of age). Individuals over the age of 65 experience decreases in their poverty rate that in some instances are four times as large as those for children. Since working age adults are less likely to rely upon non-cash benefits, their rates do not decline as much as those of children. Second, including a cash value for medical payments (especially the market value estimates) reduces the poverty rate for all age groups by substantial amounts. Including market value estimates of medical benefits with the other non-cash benefits reduces the poverty rate for children by about one-fourth and that of the aged by almost three-fourths. Including these medical payments has the effect of reducing the incidence of poverty for groups with high medical risks. The aged are a good example. In 1983, Medicaid benefits had an annual market value of $1,014 for the aged, 2.5 times the size of the annual value ($404) for persons under 21. Although the value of these medical benefits are adjusted by medical risk, the poverty thresholds are not. Adding only food and housing benefits to counted income has more moderate effects upon poverty rates.

TABLE 2-2—COMPARISON OF ALTERNATIVE POVERTY RATES BY AGE GROUP 1983 [1]

Type of measure [2]	Children (under 18)	Nonaged Adult (18–64)	Aged adult 65+
1. Official poverty rate (cash income)	22.2	12.4	14.1
2. Cash income plus food stamps, school lunch, subsidized housing:			
a. Recipient value	20.4	11.6	12.6
Percent decline	(−8.1)	(−6.5)	(−10.6)
b. Poverty budget share	20.1	11.5	12.3
Percent decline	(−9.5)	(−7.3)	(−12.8)
c. Market value	19.9	11.4	12.3
Percent decline	(−10.4)	(−8.1)	(−12.8)
3. Cash income plus food stamps, school lunch, subsidized housing, non-institutional payments for medical benefits:			
a. Recipient value	19.6	11.2	9.5
Percent decline	(−11.7)	(−9.7)	(−32.6)
b. Poverty budget share	19.0	11.0	9.1
Percent decline	(−14.4)	(−11.3)	(−35.5)
c. Market value	15.9	9.4	3.7
Percent decline	(−28.4)	(−24.2)	(−73.8)

[1] Table entries in parentheses represent the percentage decline from the official cash income measure.

[2] All alternative measures include valuations for food stamps, school lunch, and public housing. In some instances Medicare and Medicaid benefits are also included as a source of income. When these medical benefits are included there is no valuation of institutional payments.

After-tax income

The overall poverty rate in 1982 would have been 1.1 percentage points higher, a 7.3 percent increase, if taxes were deducted from counted income (Table 2–3). As one would expect, the poverty rate for individuals between the ages of 18 and 64 increase the most after deduction of taxes (9.1 percent); the child rate has the next largest increase (8.2 percent). The rate for those 65 years old and older does not change significantly. The relatively large increase in the child poverty rate partly stems from the large number of poor families with children who have some earned income; in 1982, 77 percent of poor male-present families with children had earned income, while 46 percent of female-headed families had earned income.

If poverty rates were calculated on the basis of after-tax cash income plus non-cash benefits, they would have fallen below the actual rates but above those based on pre-tax cash plus non-cash income. Table 2–3 shows that nonaged adults again experience the largest impact when taxes are deducted from their income, followed by children. Taxes increase the alternative rates for those between 18 and 64 years old from eight to 9.9 percent depending upon the valuation method. The rate of increase for children varies from 7.6 percent to 9.7 percent.

TABLE 2–3.—POVERTY RATES BY AGE: 1982 AFTER DEDUCTIONS FOR TAXES AND SELECTED NON-CASH BENEFITS [1]

	Overall rate	Children (under 18)	Nonaged adult (18–64)	Aged adult 65+	Percentage increase in overall rate
1. Official poverty rate (total cash income)	15.0	21.9	12.0	14.6	
Cash income less taxes	16.1	23.7	13.1	14.7	7.3
2. Cash income plus food stamps, school lunch, subsidized housing:					
a. Recipient value	13.7	19.8	11.2	13.1	
Less taxes	14.7	21.4	12.1	13.2	7.3
b. Poverty budget share	13.6	19.5	11.1	12.8	
Less taxes	14.6	21.0	12.0	12.0	7.4
c. Market value	13.4	19.2	10.9	12.8	
Less taxes	14.4	20.8	11.9	12.9	7.5
3. Cash income plus food stamps, school lunch, subsidized housing, non-institutional payments for medical benefits:					
a. Recipient value	12.9	19.1	10.7	10.0	
Less taxes	13.9	20.7	11.7	10.1	7.8
b. Poverty budget share	12.5	18.3	10.5	9.6	
Less taxes	13.6	19.9	11.5	9.7	8.8
c. Market value	10.3	15.4	9.1	4.1	
Less taxes	11.2	16.9	10.0	4.1	8.7
Average increase:					
After deduction of taxes	1.0	1.6	1.0	.09	
From income [2] (percent)	6.9	7.3	8.25	.6	

[1] As of April 1985, tax information was not available for 1983. Note that these figures are for 1982. All measures include valuations for food stamps, school lunch, and public housing. In some instances Medicare and Medicaid benefits are also included as a source of income. When these medical benefits are included there is no valuation of institutional payments.

[2] Simple average of increase in rates for all valuation techniques and official measure.

SHARE OF THE POOR

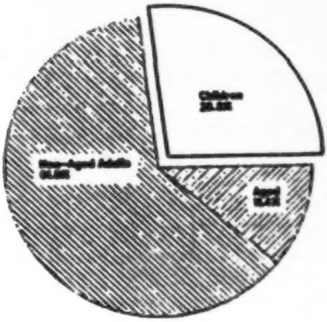
In 1983, approximately 35.3 million people were poor. Among the poor, 50.3 percent were between the ages of 18 and 64, 39.2 percent were children under 18, and 10.5 percent were 65 years or older (Chart 2.3). While children comprised almost 40 percent of the poor, they represented less than 27 percent of the overall population. Children are the only age group over-represented in the poverty population (i.e., their share of the poverty population exceeds their share of the total population).

Adding food stamps, school lunch, and subsidized housing benefits to a family's cash income *reduces* children's share of the 1983 poverty population very slightly, whatever the valuation method; and addition of medical benefits *increases* children's share of the poor.

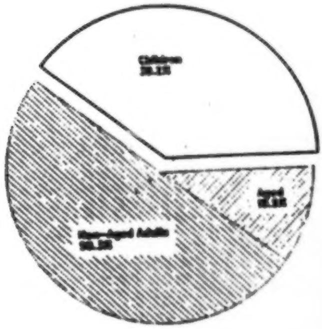
Chart 2.3

Total and Poor Population by Age: 1983

Total U.S. Population = 231.9 Million



Total Poor Population = 35.3 Million



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POVERTY GAP

Another yardstick used to measure poverty is the income deficit or poverty gap. This is the amount of annual income required to raise the income of a poor family up to its poverty threshold. In the aggregate this measure is influenced by the number of poor and by the severity of each family's poverty.

In 1983, the aggregate income deficit was $47.1 billion. Roughly, $15.9 billion or 33 percent of this deficit represented the aggregate income deficit for children, who accounted for 39 percent of the poor, as seen above.[12] The income deficit for nonaged adults was $27.0 billion, and that for aged adults was $4.1 billion.

These distinctions based solely on age may be somewhat misleading, since a number of adults are in families without children. The income deficit for families with children made up 57.1 percent ($26.9 billion) of the total income deficit. This is almost 5.5 times the income deficit for families without children.[13]

Children are likely to be in families with larger poverty gaps than those of other age groups. Chart 2.4 provides the distribution of poor children and adults by the ratio of their family income to their poverty threshold. The chart shows that a larger share of poor children are farther from the poverty threshold than adults: 43.1 percent of poor children are in families with incomes that are less than half of the poverty threshold, 35.6 percent of poor adults are in similar families.

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[12] These estimates are derived by dividing a family's total income deficit equally among family members and then aggregating these pro-rata deficits by age categories. As a result, simply spending $15.9 billion to lift poor children out of poverty would not eliminate the income deficit for these families. Moreover, as noted in Chapter V, if a sum equal to their poverty gap were given to all poor families, some would work less, and the gap would open up again, although it would be very much smaller than before.

[13] It should be kept in mind when comparing these numbers that the number of people in families with children outnumber families without children by a large margin. Since families with children tend to be larger, they necessarily have higher poverty thresholds and therefore can have an income deficit which is larger than the income deficit for the smaller families without children. Both of these factors contribute to the differences between these deficit figures.

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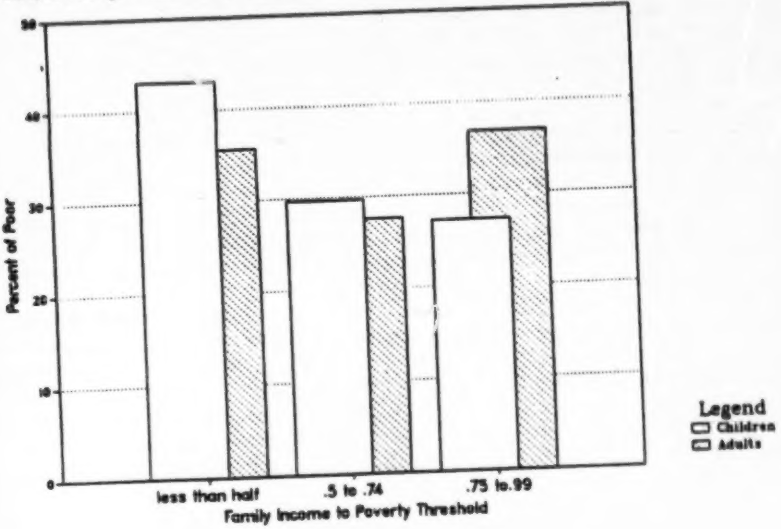
CHART 2.4

Relationship of Family Income
to Poverty Threshold for Poor Children and Adults: 1983



CHARACTERISTICS OF POOR CHILDERN

DEMOGRAPHIC FACTORS RELATED TO POVERTY

The incidence of poverty among children varies with race, family type, marital status of the parent, age of the child and parent, as well as other demographic factors (detailed in Chapters III and IV). Children in male-present families have lower poverty rates than children in female-headed families, and white children have lower poverty rates than black children (see Chart 2.5). The poverty rate for children in white, female-headed families is slightly higher than the overall rate for black children. Black children in female-headed families, however, have the highest poverty rate of all those shown—about 69 percent in 1983.[14]

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[14] Hispanic children in female-headed families, not shown, have a higher rate (70.6 percent).

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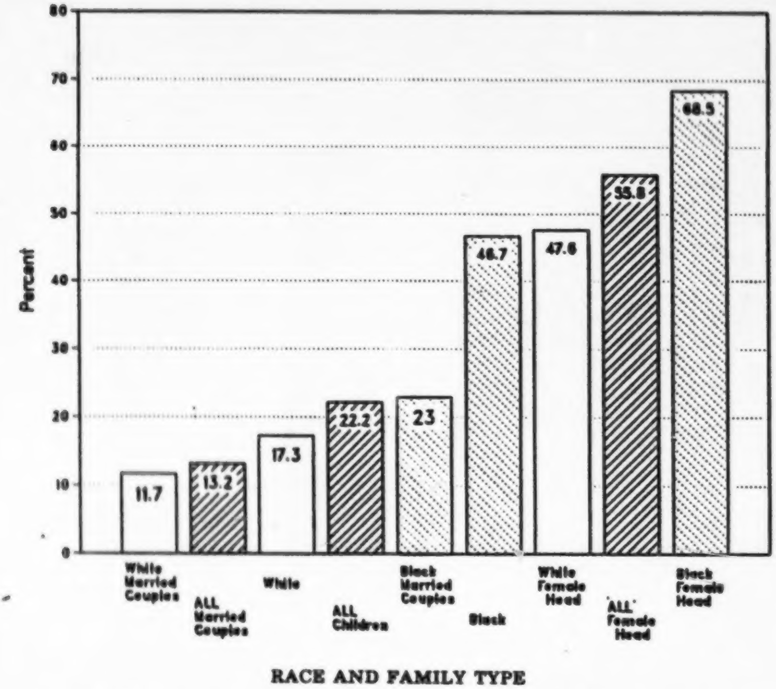
CHART 2.5

Comparison of Poverty Rates for Children by Race and Family Type: 1983



About 22 percent of all children were poor in 1983. Nearly one out of every two black children (46.7 percent) was poor, and almost two out of every five Hispanic children (38.2. percent) were poor whereas about one in every six white children was poor (17.3 percent). In families with a male present, 11.9 percent of white children, 23.8 percent of black children, and 27.3 percent of Hispanic children were poor. For female-headed families the rates were substantially higher: 47.6 percent of white children in these families were poor, 68.5 percent of black children, and 70.5 percent of Hispanic children.

The incidence of poverty among all types of black female-headed families was higher than among comparable white families, but the margins differed (Chart 2.6). Black children of never-married mothers were 8 percent more likely to be poor than such white children. Black children of a divorced or separated mother, had a 41 percent higher poverty rate than white children; in widowed families, black children had a 118 percent higher rate. Chapter IV discusses income sources, including earnings of these families and of married-couple families.

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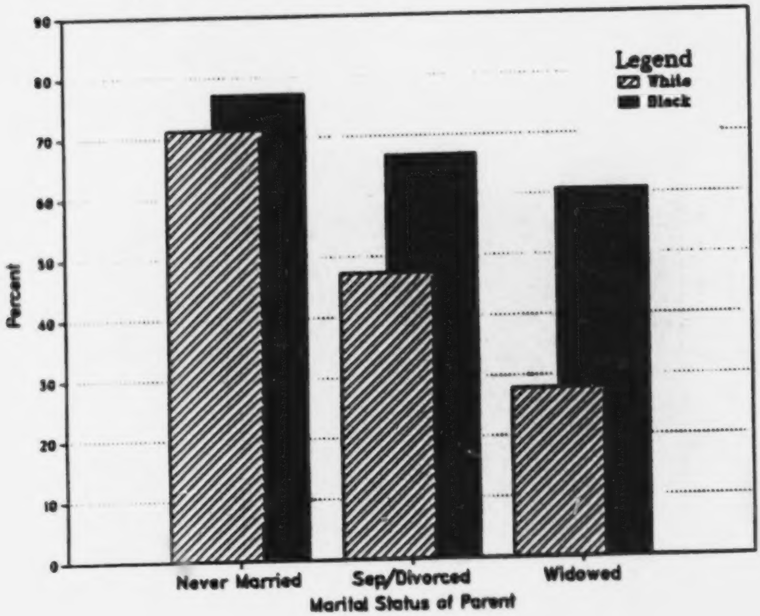
CHART 2.6

Comparison of Poverty Rates for all Children by Marital Status of Parent and Race· 1983



ALTERNATE MEASURES OF INCOME

Counting non-cash benefits as a source of income generally reduces poverty rates relatively more for black families and female-headed families than for white families and male-present families (Table 2-4). Calculating poverty rates on the basis of after-tax cash income, however, increases rates much more sharply for male-present families than for mother-child ones (Table 2-5).

TABLE 2-4.—CHILD POVERTY RATE, 1983—USING ALTERNATIVE MEASURES OF INCOME [1]

Type of measure [2]	All children	Female-head		Male-present	
		Black	White	Black	White
1. Official poverty rate (cash income)	22.2	68.5	47.6	23.7	11.9
2. Cash income plus food stamps, school lunch, subsidized housing:					
a. Recipient value	20.4	61.8	44.0	21.3	11.0
Percent decline	(−8.1)	(−9.8)	(−7.6)	(−10.1)	(−7.6)
b. Poverty budget share	20.1	59.1	43.3	21.3	11.0
Percent decline	(−9.5)	(−13.7)	(−9.0)	(−10.1)	(−7.6)
c. Market value	19.9	58.0	42.8	21.1	11.0
Percent decline	(−10.4)	(−15.3)	(−10.1)	(−11.0)	(−7.6)
3. Cash income plus food stamps, school lunch, subsidized housing, non-institutional payments for medical benefits:					
a. Recipient value	19.6	59.1	42.4	20.3	10.7
Percent decline	(−11.7)	(−13.7)	(−10.9)	(−14.3)	(−10.1)
b. Poverty budget share	19.0	54.7	40.7	20.3	10.6
Percent decline	(−14.4)	(−20.1)	(−14.5)	(−14.3)	(−10.9)
c. Market value	15.9	42.6	32.4	16.8	9.6
Percent decline	(−28.4)	(−37.8)	(−31.9)	(−29.1)	(−19.3)

---

[1] Table entries in parentheses represent the percentage decline from the official cash income measure.

[2] All alternative measures include valuations for food stamps, school lunch and public housing. In some instances Medicare and Medicaid benefits are also included as a source of income. Values assigned for their medical benefits exclude institutional payments.

TABLE 2-5.—CHILD POVERTY RATE USING ALTERNATIVE MEASURES OF INCOME BEFORE AND AFTER DEDUCTING TAXES—1982 [1]

Type of measure [2]	All children	Female-head		Male-present	
		Black	White	Black	White
1. Official poverty rate (cash income)	21.9	70.5	47.3	24.1	11.7
Cash income less taxes	23.7	72.9	48.8	28.0	13.2
Percent increase	(+8.2)	(+3.4)	(+3.2)	(+16.2)	(+12.8)
2. Cash income plus food stamps, school lunch, subsidized housing:					
a. Recipient value	19.8	63.4	43.5	21.9	10.5
Less taxes	21.4	65.6	44.4	25.0	12.0
Percent increase	(+8.1)	(+3.5)	(+2.1)	(+14.2)	(+14.3)
b. Poverty budget share	19.5	61.4	42.6	21.8	10.4
Less taxes	21.0	63.3	43:5	24.8	11.9
Percent increase	(+7.7)	(+3.1)	(+2.1)	(+13.8)	(+14.4)
c. Market value	19.2	60.1	41.7	21.4	10.4

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TABLE 2-5.—CHILD POVERTY RATE USING ALTERNATIVE MEASURES OF INCOME BEFORE AND AFTER DEDUCTING TAXES—1982 [1]—Continued

Type of measure[2]	All children	Female-head		Male-present	
		Black	White	Black	White
Less taxes	20.8	61.8	42.6	24.8	11.8
Percent increase	(+8.3)	(+2.8)	(+2.2)	(+15.9)	(+13.5)
3. Cash income plus food stamps, school lunch, subsidized housing, non-institutional payments for medical benefits:					
a. Recipient value	19.1	60.8	41.9	20.9	10.2
Less taxes	20.7	63.5	42.9	23.6	11.7
Percent increase	(+8.4)	(+4.4)	(+2.4)	(+12.9)	(+14.7)
b. Poverty budget share	18.3	56.8	39.6	20.5	10.0
Less taxes	19.9	58.9	40.5	23.3	11.5
Percent increase	(+8.7)	(+3.7)	(+2.3)	(+13.7)	(+15.0)
c. Market value	15.4	44.4	32.0	17.2	9.1
Less taxes	16.9	45.9	32.9	20.3	10.4
Percent increase	(+9.7)	(+3.4)	(+2.8)	(+18.0)	(+14.3)

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[1] Table entries in parentheses represent the percentage increase from the pre-tax poverty rate.

[2] As of April 1985, tax information was not available for 1983. Note these figures are for 1982. All measures include valuations for food stamps, school lunch and public housing. In some instances Medicare and Medicaid benefits are also included as a source of income. Values assigned for these medical benefits exclude institutional payments.

COMPOSITION OF THE POPULATION OF POOR CHILDREN

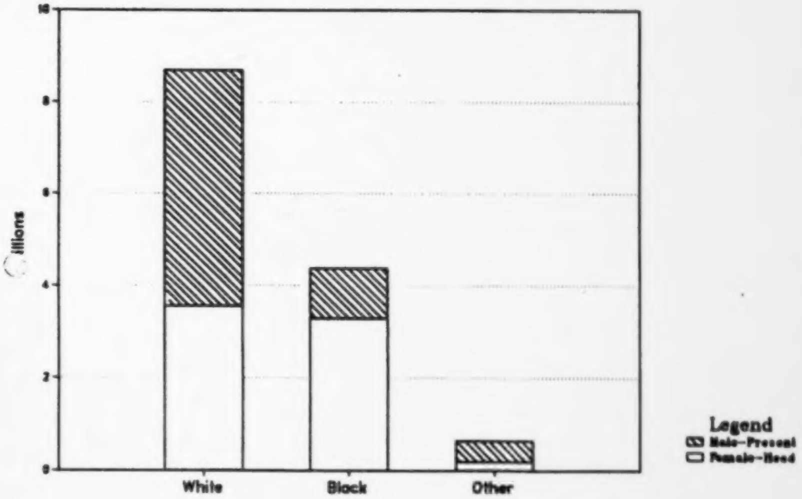
Race

Poor white children outnumber poor blacks by 2 to 1. Despite this, black children are over-represented in the poverty population. Black children make up about 15 percent of the overall child population, but 32 percent of the population of poor children. This over-representation is because their poverty rate is 2.7 times that of white children.

About 50 percent of all black children are in female-headed families; only about 15 percent of white children are in these families. Since children in female-headed families—regardless of race—have a poverty rate that is four times greater than the rate for children in male-present families, it is not surprising that such a large number of the poor are black children. Black children, however, have a higher poverty rate even after family type is taken into account. Chart 2.7 provides information on the composition of poor children by race and family types. The chart shows that the number of poor black children and poor white children in female-headed families is close. This is somewhat surprising since the number of black children in female-headed families is smaller than the number of white children in these families. It also shows that poor white children outnumber poor black children by a 2 to 1 margin.

CHART 2.7

Composition of Child Poverty Population by Race and Family Type: 1983



Family type

In 1983, 22 percent of all children lived in female-headed families, yet 52 percent of all poor children lived in these families (Chart 2.8). Children in all mother-child families were over-represented in the population of poor children. The share of poor children with divorced or separated mothers was 226 percent of their share of the general child population; corresponding percentages for children of never-married mothers and widowed mothers were 316 and 177 respectively.

The proportion of *all* children living in female-headed families varied by race. More than 16 percent of black children, but 1.4 percent of whites, were in families of never-married mothers. For divorced or separated mothers, the shares were 26.8 percent and 10.9 percent, respectively; and for widows, 6.5 percent and 1.9 percent.

The proportion of poor children in single-parent families showed less racial variation. Thirty percent of all poor white children were in divorced or separated families, compared to 38.4 percent of all poor black children. Over 3 percent of poor white children were in widowed families, compared to 8.5 percent of poor black children. Over 27 percent of all poor black children were in families of never-married mothers, compared to 5.9 percent of all poor white children.

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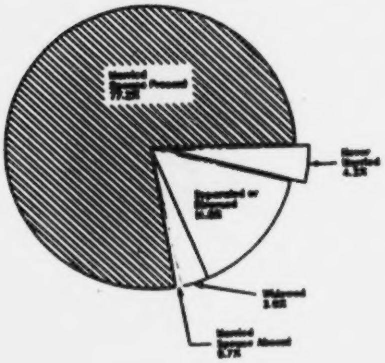
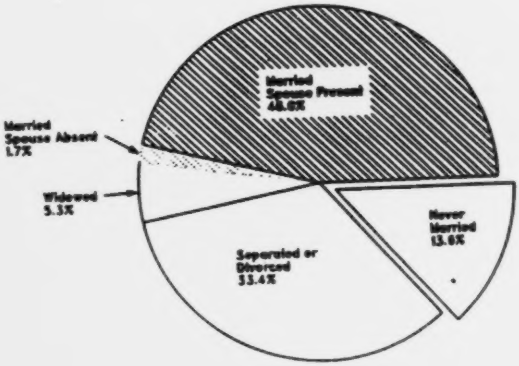
CHART 2.8

All Children and Poor Children by Marital Status of Parent: 1983

Total All Children 62.1 Million



Poor Children 13.8 Million



4. Child Poverty Trends: 1959-1983 [15]

CHILDREN VERSUS OTHER AGE GROUPS

INCIDENCE OF POVERTY

Since 1974, related children have had a higher incidence of poverty than either aged or nonaged adults. While the poverty rate for the aged was lowered by over 55 percent between 1959 and 1983, and the poverty rate for the nonaged adults declined 29.3 percent, the 1983 poverty rate for children was only 18 percent below their poverty rate in 1959. It should be noted, however, that the poverty rate for children declined by 48.7 percent between 1959 and 1969. Since reaching its low point in 1969, it has increased substantially. Almost all of this increase has occurred in the last 5 years.

The trend in the incidence of poverty is typically divided into three historic periods over the past 25 years (Chart 2.9). First, between 1959 and 1969, the overall poverty rate saw a sharp decline of 46.0 percent. The next decade, from 1969 to 1978, was a period of oscillation in the rate, but the overall rate reached an all time low of 11.1 percent in 1973. The third period, from 1978 to 1983, has seen a 33.3 percent rise in the overall rate. In 1983, 35.3 million individuals had incomes below the poverty threshold—the largest number since 1964.

While the trend in the incidence of poverty for children (Chart 2.9) follows the same general pattern as the overall rate, its rate of change over each of the three periods is somewhat different. During the first period, between 1959 and 1969, the poverty rate for related children declined by 48.7 percent, 5.9 percent more than the overall rate. The 1969 rate of 13.8 percent was the lowest incidence of poverty for related children over the entire quarter century. Between 1969 and 1979 the child rate oscillated but had a general upward trend. A comparison between the 1969 and 1979 shows a 21.0 percent increase in the poverty rate for children. Finally, in the most recent 5 years, the poverty rate increased by 38 percent, the bulk of this increase occurring between 1979 and 1982.

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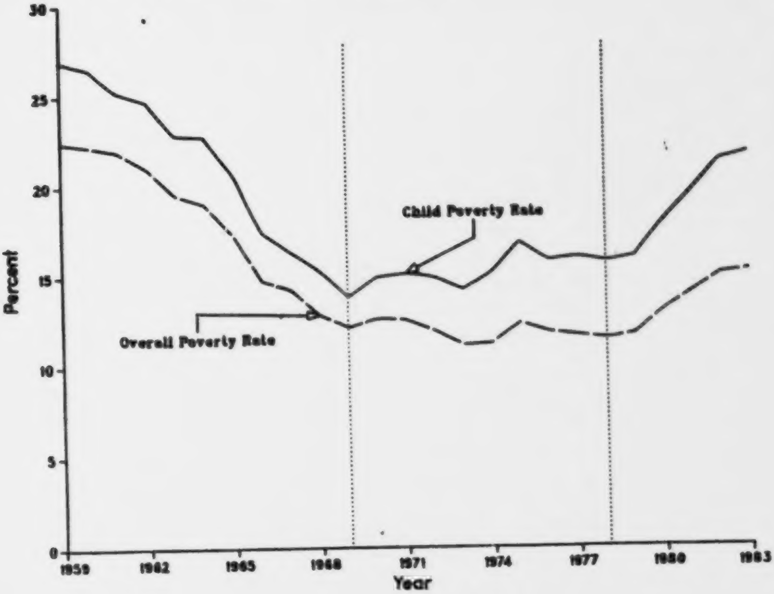
[15] All trend data in this chapter refers to "related children" to allow for an investigation over a longer period of time.

CHART 2.9

Comparison of Overall Poverty Rate and Poverty Rate for Related Children: 1959 – 1983



SHARE OF THE POOR

As a result of their high incidence of poverty, children have made up a larger share of the poor than their share of the overall population throughout the 25-year period of available statistics, 1959–1983. In 1959, children made up about 44 percent of the poverty population. As the number of poor declined between 1959 and 1969, so did the number of poor children, but not at a substantially faster rate than the overall poor population. When the number of poor children reached an all time low of 9.5 million in 1973, children still represented over 41 percent of the poor.

CHARACTERISTICS OF POOR CHILDREN

DEMOGRAPHIC FACTORS RELATING TO POVERTY

Nonwhite children, and children in female-headed families consistently had higher poverty rates than white children and children in married-couple families during the quarter century. On the other hand, the largest swings in poverty rates were found in male-present families. This can be best seen in the most recent period, 1978–1983. The poverty rate for related children in male-present families rose from 7.9 percent to 13.4 percent, a 69.6 percent increase; the poverty rate for related children in female-headed families rose from 50.6 percent to 55.4 percent, a 9.5 percent increase.

FAMILY TYPE

Since 1959, the share of families with children who are headed by women more than doubled. This has been an important factor in the incidence of poverty among children.[16] Recently, this group's share of poor children has declined. In 1983 children in female-headed families made up about 50 percent of the poverty population—14 percent lower than their peak share in 1978. The cause for this decline was not that the number of poor children in female-headed families decreased; rather the number of poor children in the larger group of male-present families increased at a faster rate.

RACE

Black children always have been over-represented in the poverty population. In 1959, black children made up 29.2 percent of the poor and 12.0 percent of the overall population. Since 1968 the number of all children decreased, but the decline was smaller among black children. Changes in black children's share of the poverty population have corresponded with cyclical economic change. Recessions tend to increase poverty among those with higher attachment to the labor market—white, male-headed families. The increase in poor, white, male-headed families tends to decrease the share of poor children who are black, without improving the economic well-being of black children. For example, during the recession of 1980–1982 the proportion of poor children who were black declined from 35.1 percent to 32 percent, yet the number of poor black children rose by 482,000.

POVERTY TRENDS USING ALTERNATIVE INCOME MEASURES

Non-cash benefits

Information on the value of non-cash benefits is available only for 1979 to 1983. Over this time period the difference has diminished between the cash income poverty rates and the alternative rates for children, however, the non-cash benefits are valued. (Table 2–6). This is because the alternative rates have increased at a faster pace then the cash income rates. There appear to be two reasons for this. First, over this period the share of the poor children who are in male-present families grew. These families are less likely to receive non-cash benefits, show a lower reduction between the cash income poverty rate and the alternative measures, and with their growing numbers appear to be pushing the overall rates upward. Second, there appears to be a reduction in the real value of these non-cash benefits. That is, the value of these benefits has not kept pace with inflation, but the poverty threshold has increased step by step with the inflation rate.

As can be seen in Table 2–6, the incidence of poverty, after taking into account non-cash benefits, has grown at a quicker pace for children in male-present families than for those in female-headed families. Between 1979 and 1983, on average the male-present rates increased by 71.8 percent, while the female-headed family rates increased 33.3 percent. This trend holds after controlling for the race of the family.

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[16] A detailed analysis of the impact of the growth in female headed families is provided in Chapter III. Estimates of the overall child poverty rate assuming no growth in the proportion of children in female-headed families are also provided.

Taxes

Taxes affect the incidence of poverty among male-present families more than female-headed families. This is reflected in the trend in the overall after-tax poverty rate for children. Trend data for 1979–1982 show that taxes are having a bigger effect upon the incidence of poverty among children in 1982 than in 1979 (Table 2-7). The 1982 poverty rate based on after-tax cash income for children in male-present families was 57 percent greater than the 1979 rate, while for female-headed families the after-tax rate was 18 percent greater than was the 1979 rate.

TABLE 2-6.—A COMPARISON OF CHILD POVERTY RATES COUNTING DIFFERENT SOURCES OF INCOME,[1] 1979–83

Year	Official Census Bureau all cash income	Cash income + food housing			Cash income + food + housing + medical payments		
		Recipient value	Poverty budget share	Market value	Recipient value	Poverty budget share	Market value
All children:							
1979	16.4	13.6	13.5	12.9	12.8	12.4	9.7
1980	18.4	15.8	15.6	15.2	15.1	14.5	11.4
1981	20.0	17.7	17.4	17.1	17.1	16.5	13.6
1982	21.9	19.8	19.5	19.2	19.1	18.3	15.4
1983	22.2	20.4	20.1	19.9	19.6	19.0	15.9
Percentage increase, 1979–83	35.4	50.0	48.9	54.3	53.1	53.2	63.9
Children in families with a male present:							
1979	8.6	7.3	7.3	7.2	7.0	7.0	6.0
1980	10.4	8.9	8.9	8.7	8.6	8.5	7.2
1981	11.6	10.2	10.2	10.2	10.0	9.8	8.6
1982	13.1	11.8	11.7	11.6	11.3	11.1	9.9
1983	13.5	12.5	12.5	12.4	12.0	11.9	10.5
Percentage increase, 1979–83	57.0	71.2	71.2	72.2	71.4	70.0	75.0
Children in female-headed families:							
1979	48.6	39.3	38.8	36.2	36.5	36.4	24.7
1980	51.1	44.0	43.0	41.5	41.6	39.0	28.3
1981	52.6	46.7	45.0	44.0	44.5	42.1	32.6
1982	56.3	51.2	50.0	48.9	49.2	46.3	36.7
1983	55.8	51.0	49.4	48.7	48.9	46.2	36.4
Percentage increase, 1979–83	14.8	29.8	27.3	34.5	34.0	26.9	47.4

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[1] All alternative measures include valuations for food stamps, school lunch, and public housing. In columns 5 to 7, Medicare and Medicaid benefits also are included as a source of income. When these medical benefits are included, there is no valuation of institutional payments.

TABLE 2-7.—A COMPARISON OF CHILD POVERTY RATES COUNTING DIFFERENT SOURCES OF INCOME [1] AND DEDUCTING TAXES, 1979–82 [2]

Year	Official Census Bureau all cash income	Cash income plus food plus housing			Cash income plus food plus housing plus medical payments		
		Recipient value	Poverty budget share	Market value	Recipient value	Poverty budget share	Market value
All children:							
1979	17.2	14.1	14.0	13.4	13.4	12.9	10.2
1980	19.5	16.6	16.5	16.1	15.9	15.3	13.2
1981	21.7	19.3	18.9	18.7	18.6	18.0	15.0
1982	23.7	21.4	21.0	20.8	20.7	19.9	16.9
Percentage increase, 1979–82	37.8	51.8	50.0	55.2	54.5	54.3	65.7
Children in families with a male present:							
1979	9.5	7.9	7.9	7.8	7.6	7.6	6.5
1980	11.7	9.9	9.9	9.7	9.6	9.5	8.2
1981	13.4	11.9	11.9	11.8	11.7	11.5	10.2
1982	14.9	13.3	13.3	13.2	12.9	12.7	11.4
Percentage increase, 1979–82	56.8	68.4	68.4	69.2	69.7	67.1	75.4
Children in female-headed families:							
1979	49.2	39.4	38.9	36.3	36.7	34.5	24.8
1980	51.6	44.3	43.3	41.4	41.7	39.2	28.4
1981	53.8	47.8	46.1	45.2	45.5	42.8	33.5
1982	58.2	52.7	51.3	50.1	50.8	47.7	37.8
Percentage increase, 1979–82	18.3	33.8	31.9	38.0	38.4	38.3	52.4

[1] All alternative measures include valuations for food stamps, school lunch, and public housing. In columns 5 to 7, Medicare and Medicaid benefits also are included as a source of income. When these medical benefits are included, there is no valuation of institutional payments.

[2] Tax information for 1983 was not available as of April 1985.

5. The Dynamics of Childhood Poverty

INTRODUCTION

This section examines childhood poverty by tracking children and their families through time.[17] Previous sections used information from surveys taken at a point in time.

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[17] Research reported here was based on the Panel Study of Income Dynamics (PSID), a survey of 5,000 American families conducted annually since 1968 by the Survey Research Center of the University of Michigan.

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Why is the dynamic perspective important? Imagine two surveys of the population taken 5 years apart. The observed incidences of poverty might be the same (as they were, approximately, in 1970 and 1975) at about 12 percent of the population. The static comparison would suggest that not much has changed. This may or may not be the case. The 12 percent of the population that was poor in 1975 could be exactly the same individuals who were poor in 1970 or they could be an entirely new group. The implications are important. The former case evidences the existence of a group of long-term poor, or underclass. The latter presents a picture of transitory poverty, probably associated with individual life cycle changes or cyclical economic change. Only through following a representative group of individuals through time can one distinguish among the different processes underlying the static picture of poverty.

Another example illustrates the usefulness of dynamic analysis. In 1978, 59 percent of all poor persons lived in female-headed households.[18] This statistic implies that the Government, for example, could help a majority of the poor by focusing exclusively on female-headed households. Paradoxically, this would not be true. Individuals in female-headed households make up a much higher proportion of the poor at a particular point in time (e.g., 1978) than they do of individuals who are poor at some point over a period of time (e.g., 1969–1978). In this example, individuals in female-headed families made up 59 percent of the poor in 1978, but only 33 percent of those poor at some point between 1969 and 1978. The paradox is explained because female-headed households tend to be poor for a longer period of time than others. The longer duration increases their probability of being found poor in any given year. In our example, if the Government assisted only female-headed households, two-thirds of those poor between 1969 and 1978 would not have been helped. Only dynamic analysis can uncover this type of information.

Collecting information on individuals over a long time period is, however, difficult and expensive. The Survey Research Center of the University of Michigan has collected such information on 5,000 American families since 1968. This survey, the Panel Study of Income Dynamics (PSID), is the only reliable source of income and demographic information for a representative sample of American families over a significant number of years. During the last few years, data have become available for a sufficient number of years to permit statistical inferences about the dynamics of poverty.[19]

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[18] Source: Panel Survey of Income Dynamics. Note that this rate differs from the official Census Bureau estimate.

[19] The information presented below draws heavily on the PSID research. The primary sources of information for this section were: Bane, Mary Jo. Household Composition and Poverty. IRP Conference Paper presented in Williamsburg, VA. December 6–8, 1984. University of Wisconsin-Madison. Duncan, Greg J., et al. Years of Poverty, Years of Plenty: The Changing Fortunes of American Workers and Families. Ann Arbor: Institute for Social Research, University of Michigan. 1984. Duncan, Greg J. and Rogers, Willard. A Demographic Analysis of Childhood Poverty. unpublished paper. Ann Arbor, MI: Survey Research Center, University of Michigan. 1984. Elwood, David T. and Bane, Mary Jo. Slipping Into and Out of Poverty: The Dynamics of Spells. NBER Working Paper #1199. Harvard University. 1983. Hill, Martha S. and Ponza, M. Poverty and Welfare Dependence Across Generations. Economic Outlook USA. Summer, 1983, vol. 10, no. 3. Lillia, Mark. Why the "Income Distribution" is so Misleading. The Public Interest, #73: National Affairs Inc. New York, N.Y. Fall 1984.

Several caveats are in order. It is risky to draw definitive conclusions from only one data source. Potential problems of sample bias or error are difficult to evaluate without independent replication of results from other samples. Unfortunately, other comparable sources of data do not exist. The PSID has been subjected to close scrutiny and retains its credibility. Nevertheless, the reader should consider the findings to be tentative.

Because of the relatively small sample (originally 5,000 families compared to about 60,000 households in the annual Current Population Survey) extensive analysis on population groups that make up a relatively small proportion of the population, such as Hispanics or other non-black minorities is not possible.

Some of the findings presented here are based on new, as yet unpublished, research. This work is used by permission of the authors, but may be subject to some revision.

Finally, while research establishes statistical associations between some types of events, or demographic conditions with poverty among children, it does not establish direct cause and effect between them. Also, in the case of events such as divorce, remarriage, or unemployment, the research does not investigate the causes of the events. Thus, for example, the extent to which government transfers affect hours worked is not addressed below.

DYNAMIC PATTERNS OF CHILDHOOD POVERTY [20]

DURATION OF POVERTY

In the aggregate, the pattern of childhood poverty is similar to the pattern of poverty in the general population. Table 2-8 presents information on the incidence of short-term and persistent poverty for the total population and for children. [21] The data for children and the total population are not directly comparable because the time period for all persons is the 10-year period 1969-1978, while for children it is the 15-year period of "childhood" for children who were between the ages of 1 and 3 in 1968.

TABLE 2-8.—INCIDENCE OF SHORT-TERM AND PERSISTENT POVERTY

	Percent of all persons in category (10-year period)	Percent of children in category (15-year period)
Poor from 1 to 10 years	24.4	29.1
Short term (from 1 to 4 years)	19.0	22.1

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[20] Estimates of poverty rates from the PSID consistently are lower than official Census Bureau estimates. Those responsible for the PSID at the Survey Research Center of the University of Michigan believe the difference results from more complete accounting for income on the PSID than the Current Population Survey. The Census Bureau acknowledges that the CPS does under-estimate income. It is not known exactly how much more accurate PSID income information is. For the types of analysis presented here, it is more important that the data collection be consistent over time, than accurate at a point-in-time.

[21] The number of years used to classify an individual as experiencing short term vs. persistent poverty is somewhat arbitrary. One could certainly argue that someone poor for 6 out of 10 years is persistently poor. However, even if persistent poverty were defined as 5 or more years out of 10, it would not change the finding that most people who experience poverty do so for a short time.

TABLE 2-8.—INCIDENCE OF SHORT-TERM AND PERSISTENT POVERTY—Continued

	Percent of all persons in category (10-year period)	Percent of children in category (15-year period)
Poor from 5 to 10 years)	5.4	7.0
Persistently poor (from 8 to 10 years for total population, from 10 to 15 years for children)	2.6	4.8

Source: Duncan et al. Years of Poverty Years of Plenty. Duncan and Rogers. Demographic Analysis of Childhood Poverty.

Although the incidence of poverty for children cannot be directly compared to that of the total population because of differences in the measurement period, the patterns for children and the overall population are similar. One quarter of all persons and 33.9 percent of all children were poor at some time. This proportion is particularly interesting since the PSID poverty rate for 1975 was only 8.9 percent compared to the official estimate of 12.3 percent. The official proportion of the population that would have been poor at some point during this time period as measured by the CPS is not known.

The table also shows that a much smaller proportion of the population experiences mid-to long-run (persistent) poverty. As classified by the researchers, 2.6 percent of all individuals and 4.8 percent of all children lived in persistently poor families.

DURATION, RACE AND REGION

The relatively small proportion of persistently poor children masks the fact that almost 30 percent of all black children were persistently poor (see Table 2-9). In the PSID sample, almost 90 percent of the children who were poor for 10 or more years of their childhood were black. Conversely, white children make up about three quarters of the short-term (1 to 4 years) poor children. (Even though the rate for white short-term poverty is lower than that for black children—19.8 vs. 32.3; that rate is applied to a much higher base—over 86 percent of all children were white). Nevertheless, the probability of poverty of any duration is much higher for blacks than whites.

TABLE 2-9.—INCIDENCE OF SHORT-TERM AND PERSISTENT POVERTY OF CHILDREN BY RACE

	White	Black
Poor from 1 to 4 years out of 15 years	19.8	32.3
Poor from 5 to 9 years out of 15 years	4.6	17.7
Poor from 10 to 14 years out of 15 years	0.6	24.0
Poor all 15 years of childhood	0.0	4.9

Source: Duncan and Rogers. Demographic Analysis of Childhood Poverty.

A child's likelihood of facing long-term poverty increased if the child was from the South, a one-parent family, or a rural area. According to Duncan and Rogers (1984), "the geographic distribution of persistent poverty becomes somewhat more balanced when cash welfare payments are subtracted from total family incomes, owing to the fact that welfare payments tend to be more generous in large cities and northern areas."

DURATION AND SELECTED DEMOGRAPHIC CHARACTERISTICS

Families that experience short-term poverty are more demographically similar to the population as a whole than those who experience long-term poverty. Table 2-10 illustrates this point. (The table is for all persons, not just children.)

TABLE 2-10.—DEMOGRAPHIC CHARACTERISTICS OF THE TOTAL AND POOR POPULATION

[In percent]

Characteristics of household head in 1978	Entire U.S. population	Short-term poor (1–2 years, 1969–78)	Persistently poor (8 or more years, 1969–78)
All Females	19	28	61
White (non elderly only)	10	16	13
Black (non elderly only)	4	6	31
All Males	80	73	39
White (non elderly only)	65	54	4
Black (non elderly only)	6	11	20
Rural (Town of 10,000 or less)	15	19	33
Urban (City of 500,000 or more)	33	33	21
Southern U.S.	30	30	68

Source: Duncan, et al. Years of Poverty, Years of Plenty.

To illustrate the analysis that can be made from Table 2-10, compare the first and last columns of the first row of the table. They show that while 19 percent of the people in the United States lived in female-headed households in 1978, 61 percent of the persistently poor lived in such households. Obviously the persistently poor are disproportionately in female-headed households.

Comparing columns 1 and 2 of Table 2-10 shows that, in general, those experiencing short-term poverty between 1969 and 1978 were similar in demographic characteristics to the population as a whole. This is especially true of geographic characteristics. The short-term poor are geographically indistinguishable from the U.S. population as a whole. Race and sex characteristics show a somewhat more complex pattern. The race and sex characteristics of the short-term poor are much closer to those of the general population than are the characteristics of the persistently poor. Still, female-headed and black households are overrepresented among the short-term poor.

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COMPLETE SPELLS OF POVERTY

While the preceding gives a defensible picture of the dynamics of poverty, it is not without flaws. One problem occurs because the research observes poverty over the time period 1969–1978. If two families in the PSID survey each had a 10-consecutive-year span of poverty, but one began in 1960 and the other in 1978, both would show up in the analysis as experiencing short-term (1 year) poverty (1969 for the first family, 1978 for the other). The following discussion presents two alternate ways of answering the same basic question as addressed above: What are the patterns of poverty over time?

Bane and Ellwood (1983) concentrate on complete spells of poverty. Table 2–11 estimates the percent of all poverty spells beginning between 1969 and 1978 that lasted a given number of years. The results are generally consistent with other PSID research. Most spells of poverty last a relatively short time. Almost 70 percent of all spells of poverty lasted 3 years or less, with over 40 percent lasting only 1 year. Table 2–11 shows persistent (8 or more years) poverty to be more prevalent than that shown in Table 2–8. This is probably because the "spells" approach estimates the duration of poverty spells that last past the end of the available survey data. Using this methodology, 18 percent of the spells of poverty were long-run. It should be noted that Table 2–11 is for all non-elderly persons. Bane and Ellwood do not present this information for children alone. Given other evidence, the basic patterns probably hold for children as well, but this is not known for sure.

TABLE 2–11.—SPELLS OF POVERTY FOR NON-ELDERLY PERSONS

[In percent]

Spell length in years	Persons beginning a spell at any time during survey	Persons observed poor at any point in time during survey (average)
1	41.1	9.7
2–3	27.7	15.5
4–7	13.2	15.8
8+	18.0	59.1
Total	100.0	100.0
Average (years)	4.2	11.0

Source: Ellwood and Bane. Slipping Into and Out of Poverty: The Dynamics of Spells.

A second interesting result is observed by comparing the first and second columns of Table 2–11. When a spell of poverty begins, it is likely to be short (column 1), but persons observed poor at a point in time are likely to be experiencing a long spell of poverty (column 2). Bane and Ellwood offer the following explanation:

> Consider the situation in a typical hospital. Most of the persons admitted in any year will require only a very

> short spell of hospitalization. But a few of the newly admitted patients are chronically ill and will have extended stays in the hospital. If we ask what proportion of all admissions are people who are chronically ill, the answer is relatively few. On the other hand, if we ask what fraction of the hospital's beds at any one time are occupied by the chronically ill, the answer is much larger. The reason is simple. Although the chronically ill account for only a small fraction of all admissions, because they stay so long they end up being a sizable part of the population in the hospital and they consume a sizable chunk of the hospital's beds and other resources.
>
> The same basic lesson applies to poverty. Only a small fraction of those who enter poverty in any given year will be chronically poor. But people who will have long spells of poverty represent a sizable portion of the group we label "the poor" at any one point in time.

The importance of their findings is twofold. Although the persistently poor are a relatively small proportion of those who ever become poor, they make up a majority of the total "years in poverty" experienced by the population. Second, if Government's efforts are too narrowly focused on persons experiencing long-term poverty, the majority of those in temporary need may not be served.

POVERTY THROUGHOUT CHILDHOOD

Duncan and Rogers (1984) provide a final way of looking at dynamics of childhood poverty. They calculate the expected number of years that children with different demographic characteristics can expect to spend in poverty during their first 15 years. Table 2-12 summarizes their estimates.

TABLE 2-12.—EXPECTED YEARS OF CHILDHOOD POVERTY OUT OF FIRST 15 YEARS OF LIFE

	Nonblack	Black
All Households	0.8	5.4
Characteristics of Household at Birth of Child:		
Never Married Mother	6.2	6.0
Teenage Mother	1.2	5.4
Education of Head:		
8 years	1.2	5.6
12 years	0.7	5.3
Characteristics of Household Throughout Childhood (15 years):		
Head Disabled	3.3	10.9
Lived in South	0.8	6.4
Lived Out of South	0.7	4.3
Large City	0.7	3.9
Rural Area	1.1	8.1
1 Parent	3.2	7.3
2 Parent	.5	3.0

Source: Duncan and Rogers, Demographic Analysis of Childhood Poverty.

Black dominance of long-run poverty is reinforced in Table 2-12. On average, black children spent over one-third (5.4 years) of their childhood (first 15 years) poor. White children spent only 5 percent (0.8 years) of their childhood poor.

How do household characteristics affect the expected number of years in poverty? Using Table 2-12, compare the expected years in poverty for all non-black and black households to those of households with various characteristics. The greater the difference between the expected years for a particular characteristic and the overall rate, the stronger seems the association between the characteristic and poverty. In general, family characteristics have a greater influence on the poverty of white children than black children. For example, being born to a white, never-married female increases the expected number of years of child poverty by almost 700 percent (from 0.8 years to 6.2 years), while the corresponding increase for black children is just over 10 percent (from 5.4 years to 6.0 years). The only family characteristics that have a similar impact on black and non-black children are disability of the household head and living in a one-parent family (both for the full 15 years of childhood).

It is interesting that geographic location has a significant influence for blacks but not for non-blacks. For non-black children, living in the South or non-South or in a large city or rural area has little impact on the expected years of poverty. Black children residing in rural areas and/or in the South can expect more years in poverty than their counterparts in large cities and/or in non-South.

DO POOR CHILDREN BECOME POOR ADULTS?

Does long-term dependence on welfare as a child increase chances that a young adult also will depend on public aid? Defining "welfare dependence" as receiving more than half of total income from welfare, Hill and Ponza used PSID data to explore this issue. In their sample of 577 young adults, 16 percent of blacks, but only 2 percent of whites, were raised in families that received more than half their income from welfare during the years that the child lived at home.

After relating a measure of the young adult's welfare dependency to that of his parent, they concluded that blacks from welfare-dependent families were no more likely to become welfare-dependent themselves than were similar blacks from families that never received welfare. Small sample size hindered their analysis of whites.[22]

Hill and Ponza also explored whether young adults from welfare-dependent families worked less than those whose families had never received welfare. They found no significant effect on either earnings or work hours of black men and women. However, white men from homes with the highest degree of welfare dependency averaged 6.5 fewer hours of work per week than otherwise similar white men.

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[22] They did find that white women from families that had received 70–100 percent of their income from welfare, and white men from families that had received 26–50 of their income from welfare drew a "significantly higher proportion" of their own income from welfare than did otherwise similar whites. Both of these results are based on fewer than 10 cases and must be treated cautiously.

Transitions Into and Out of Poverty

For the most part, the events and circumstances that lead a child into or out of poverty are beyond the child's control. The main exception to this statement is for older children who can work and contribute to family income. But what types of events are associated with the beginnings or ends of periods of poverty? Are changes in family structure more directly related to spells of poverty than changes in the earnings of family heads? What events have the most severe consequences when they occur, and what positive or negative events happen most frequently? Do different factors help explain black and white poverty? Some preliminary answers to these questions have been advanced from research on the Panel Study of Income Dynamics.

BIRTH INTO POVERTY

A significant portion of childhood years of poverty or spells of poverty begin with birth. Estimates are that from a fifth to a quarter of poor children are born into poverty. Being born into poverty can result from a number of factors. A family that was near poor before the birth of a child may become poor after the birth if the family's income does not increase enough to offset the increased economic resources needed by the child. Alternately, the birth of a child could result in decreased hours of work, and therefore earnings, of adults in the family. This decrease in earnings could be enough to drop the family below the poverty level. One estimate is that for children born into poor female-headed families, one-third of the poverty was a result of the birth. Finally, a child may be born into a family that was poor before the birth.

EVENTS AFTER BIRTH

Although significant, birth into poverty did not account for 75 to 80 percent of children's transitions into poverty. Later events must have caused these poverty beginnings.[23] In general, events after birth did not play as important a role in the poverty of black children as white children. Duncan and Rogers (1984) attribute 85 percent of white childhood poverty, but only 55 percent of black childhood poverty, to events subsequent to birth. Events such as divorce did, however, have a significant impact on black families. In fact, the likelihood of a child's becoming poor as a result of a number of events was higher for blacks than whites. Because, in general, white families with children are farther above the poverty line than black families, the occurrence of a negative event (e.g., unemployment) is less likely to make them poor. Even so, post birth events explained more of white childhood poverty than black: (a) because there is less white poverty (as a percent of all white families) to explain and (b) a much higher proportion of black children were born into poverty.

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[23] However, events that happen after the birth of a child may have thier origins before or after the birth.

Tables 2-13 and 2-14 both look at the relationships between childhood poverty and events. Both tables illustrate the need to consider not only how severe the consequences of an event are if it occurs, but also how frequently the event occurs overall. For example, Table 2-13 shows that becoming a female-headed family explained 41 percent of the poverty spells of children in female-headed families. The beginning of a female-headed family explains only 14.9 percent of all childhood poverty spells, however, because, the event happens less frequently than other negative events (e.g., decline in earnings of male-headed family).

Summing all the changes in earnings events accounts for over 50 percent of all childhood spells of poverty and nearly two-thirds of the poverty spells of children in male-headed families (see Table 2-13). The picture is quite different for female-headed families, where changes in earnings account for just one-quarter of the spells of poverty.

TABLE 2-13.—PRIMARY REASONS FOR BEGINNINGS OF SPELLS OF CHILDHOOD POVERTY (BY FAMILY TYPE CHILDHOOD)

[In percent]

Primary reason for beginning of spell	Children with poverty experiences		
	All children	Male-headed families	Female-headed families
Changes in Earnings:			
Earnings of Head Fell	38.5	51.1	13.4
Earnings of Wife Fell	7.0	10.5	
Earnings of Other Family Member Fell	7.1	3.6	14.2
Total for Earnings Changes	52.6	65.2	27.6
Need Level/Poverty Rose	6.7	7.7	4.8
Unearned Income Fell	5.7	5.1	6.9
Beginning of Female-Head Family	14.9	1.6	41.2
Born into Poverty	20.0	20.2	19.5
Total	100.0	100.0	100.0
Percents of All Beginnings	100.0	66.5	33.5

Source: Derived from Bane, Mary Jo. Household Composition and Poverty.

An interesting insight from Table 2-13 (and reinforced in Table 2-14) is that for female-headed families, declines in the earnings of other family members are as influential as a decline in earnings of the female-head of the family. Presumably, the work of older children is important to economic resources of low-income female-headed families. This hypothesis is supported by another statistic from the PSID. A child leaving home decreased the poverty rate for male-headed families, because the departing child decreased the family's needs by more than the value of his income. The poverty status of female-headed families on the other hand was worsened by a child leaving. In this case, the older child's income exceeded the additional economic need he brought the family.

Table 2-14 also estimates the impact of events on childhood poverty transitions on all children. The first column of the table estimates the combined effect on all children of the probability that an event occurs (column 5) and the effect of the event given that it occurs (column 2). For example, the first entry in column 1 (0.53 percent) shows that; one-half of 1 percent of all children moved into or out of poverty while experiencing a transition from a two-parent to a one-parent family, or vice versa. Changes in hours worked dominate poverty transitions (also in Table 2-13). Changes in hours worked dominate poverty transitions (also in Table 2-13). Changes in hours worked by other family members (excluding the head of family and spouse) had the most impact on poverty transitions (1.68 percent) followed by changes in hours worked by the male head of family (0.92 percent).

TABLE 2-14.—SUMMARY OF EFFECTS OF VARIOUS EVENTS ON TRANSITIONS INTO AND OUT OF POVERTY

[In percent]

Events	All children: net change in overall poverty rate associated with event	Children experiencing event: net change in poverty rate of children experiencing event	Children falling into poverty: fraction experiencing the negative event	Children climbing out of poverty: fraction experiencing the positive event	All children: fraction of all children who experience the event
I. Major changes in family structure:					
A. Transition from two-to-one-parent or vice versa	0.53	13.6	9	8	4.1
II. Major changes in labor supply of family members:					
A. Unemployment of household head changes by one month or more:					
1. Male head	.92	8.1	15	16	11.4
2. Female head	.03	1.6	3	3	2.2
B. Work hours of head changes by 500 hours or more for reasons other than unemployment:					
1. Male head	.47	2.1	16	12	21.6
2. Female head	.47	13.0	7	9	3.7
C. Work hours of wife changes by 500 hours or more	.56	2.5	7	13	21.2
D. Work hours of other family members changes by 500 hours or more	1.68	7.0	19	32	23.9
III. Changes in disability status of heads of intact families:					
Male head	.19	10.4	4	2	2.0
Female head	.05	6.3	2	1	0.8

Note: Table reads (first table cell), .53% of all children moved into or out or poverty as a result of a transition from a two parent to a one parent family or vice versa. A more detailed version of the table that separates the transitions into poverty from transitions out of poverty can be found in: Duncan and Rogers. The Prevalence of Childhood Poverty. Survey Research Center, University of Michigan. Ann Arbor. 1985.

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Source: Duncan and Rogers. Demographic Analysis of Childhood Poverty.

The impact of events on those children experiencing them is shown in column 2. Here, those events usually thought to be influential for the economic well being of children stand out: transitions from two- to one-parent families, employment status and hours worked by female heads of household, and disability of a male head of household. These events happen too infrequently, however, to be the prime explanatory events for childhood poverty.[24]

Finally, columns 3 and 4 compare the effects of the favorable and unfavorable occurrence of an event on transitions into and out of poverty. In most cases the effects are symmetrical. The families of children climbing out of poverty experience the favorable side of an event with about the same frequency as the families of children falling into poverty experienced the unfavorable side of the event. The one exception is the hours worked by other family members. Here, almost one-third of all children climbing out of poverty lived in families where the hours worked by other family members increased by at least 500 hours. While decreases in the hours worked by other family members were experienced by a higher proportion of those falling into poverty than any other event (19 percent), the unfavorable event was not nearly so influential as the favorable event.

6. Conclusions

THE MEASUREMENT OF POVERTY

In 1983, including the value of non-cash Government assistance for food, housing and medical care as income would have reduced the poverty rate for children by 12 to 28 percent (depending on the method used to value the benefits), compared to the official rate.

In 1982, excluding income and payroll taxes from a family's total cash income would have increased the poverty rate for children by over 8 percent, compared to the official rate.

Including the value of non-cash Government assistance as income would reduce the poverty rate for children in female-headed families more than male-headed families.

Measuring a family's income after payroll and income taxes have been deducted rather than before would increase the poverty rate for children in male-headed families more than female-headed families.

CHILD POVERTY IN 1983

Children were 1.5 times as likely to be poor as people over the age of 65, and 1.8 times as likely to be poor as adults between the ages of 18 and 64.

A black child was over two times as likely to be poor as a white child. Since there are far more white children in the total population than black children, poor white children outnumber poor black children by a two-to-one margin.

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[24] This table does not, however, control for the duration of a period of poverty. Information presented previously indicates that events such as transitions to female-headed families result in longer periods of poverty than labor supply changes.

Over half of all children in single-parent families headed by a female were poor. Seven out of 10 black children in these families were poor. Poverty rates for children in female-headed families vary with the mother's marital status. The likelihood of a white child's being poor when the mother is never married is 2.8 times as great as when the mother is widowed. Since there are higher rates of poverty in all types of black families, the distinction in black poverty rates between children of never-married mothers and widowed mothers is substantially smaller.

BETWEEN 1959 AND 1983

Between 1959 and 1983, the poverty rate for persons over the age of 65 declined by over 58 percent, but the rate for children declined only by 18 percent. Between 1959 and 1969 the poverty rate for children was almost cut in half. But since reaching its low point in 1969, the poverty rate for children generally increased, especially since 1978.

Between 1959 and 1983 children always made up a larger share of the poor population than their share of the total population.

The number of children in female-headed families has increased. Since these families have poverty rates substantially higher than those of other families, they have influenced the increase in childhood poverty. However, the rise in childhood poverty between 1978 and 1983 was primarily in families with a male present.

DYNAMIC ANALYSIS

Research based on the Panel Study of Income Dynamics supports these general observations on poor children:

It is important to distinguish between short-term and persistent poverty. Among children and the population as a whole, most poverty is short-term. Persistent poverty is infrequent but makes up a large share of the total years children spend in poverty.

Families who experience short-term poverty are demographically similar to the population as a whole, although blacks and people in female-headed families are somewhat overrepresented.

Persistently poor children are overwhelmingly black, live in female-headed households, and live in southern or rural areas. Almost 90 percent of persistently poor children are black.

About one-third of all children are poor sometime during childhood, but only one in 20 experiences persistent poverty.

The dynamics of childhood poverty differ markedly between black and white children. For example:

—Much of white poverty is short term and associated with events such as divorce, remarriage, or changes in earnings.

—Black poverty lasts longer and is less affected by changes in family structure events.

—A higher percentage of black children than white children are born into poverty.

By far, the events that are most strongly associated with overall transitions into poverty are reduced earnings of the head of family or of other related (non-spouse) family members.

The events that most sharply diminish family economic well-being, if they occur, are transitions into a female-headed family, disability of a head of family, and decline in the earnings of a woman heading a family.

CHAPTER III. HOUSEHOLD COMPOSITION: HOW IT AFFECTS THE POVERTY OF CHILDREN*

The rise in the poverty rate from 1978 to 1983 has attracted increasing attention to the relationship between poverty and broad demographic trends in the country. In general, family type and race are the two demographic aspects of poverty that have been most commonly explored. Many studies suggest that an important reason for the recent increase in the overall poverty rate is the increasing prevalence of female-headed households, since their poverty rate is consistently high.[1]

The association between the rising proportion of female-headed households in the general population and increases in the poverty rate has been characterized as the "feminization of poverty." This association raises two questions: First, which is the dominant trend—the feminization of households in the general population or increasing poverty rates among households headed by women? That is, to what extent is the rise in overall poverty due to a rise in the share of households headed by women? And to what extent is the rise in poverty due to an increase in the incidence of poverty among households headed by women? Second, how much have family composition changes affected changes in poverty in comparison to changes in income and jobs? Female-headed families may be disproportionately poor for a variety of reasons. They may have been poor before becoming a female-headed family, indicating that under these circumstances other characteristics than family composition caused their poverty. A substantial amount of poverty in female-headed families has been attributed to changes in income unrelated to changes in family composition.[2]

This chapter examines the relationships among major demographic trends and changing patterns of poverty among children. The chapter is divided into three major sections. The first section analyzes trends in demographic patterns and poor children over the last 25 years. The effects of family type, race, and family size on poverty rates and the characteristics of poor children are addressed. In addition, the combined effects of these demographic variables and the hypothetical effects of no change in demographic variables are evaluated. Two additional aspects of poverty among children are then examined: (1) the relationship between the severity of poverty and family type, and (2) the effects of teenage fertility on poverty.

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*Jeanne E. Griffith was the principal author of this chapter, assisted by Richard Rimkunas. Dr. Griffith compiled the tables, and Mr. Rimkunas prepared the computer graphs.

[1] See, for example, U.S. Commission on Civil Rights. A Growing Crisis: Disadvantaged Women and Their Children. Clearinghouse Publication 78. May 1983. Danziger, Sheldon. Children in Poverty: The Truly Needly Who Fall Through the Safety Net. Madison, WI: Institute for Research on Poverty. November 1981; Gottschalk, Peter and Sheldon Danziger. Macroeconomic Conditions, Income Transfers, and the Trends in Poverty in the Social Contract Revisited: Aims and Outcomes of President Reagan's Social Welfare Policy. Ed. Lee Rainwater. Washington, D.C. Urban Institute Press. 1984. And Pearce, Diana M. The Feminization of Ghetto Poverty. Society. November/December, 1983.

[2] Bane, Mary Jo. Household Composition and Poverty. IRP Conference Paper presented in Williamsburg, Va. Dec. 6-8, 1984. University of Wisconsin-Madison.

The second major section of the chapter presents the demographic trends in a broader historical and society-wide perspective. Different perspectives on the significance of changing family behavior are summarized. Longer term patterns of marriage, marital dissolution, births out of wedlock, and living arrangements are examined. Finally, the relationships between these demographic trends and children's experiences are reviewed.

The final major section of the chapter examines the possible effects of governmental policies on family formation and dissolution. Evidence from several perspectives addressing the possibility that policies have changed demographic patterns is reviewed.

1. Major Findings

Major findings include the following:

The number of female-headed families with children more than doubled from 1959 to 1983. The share of all children living in such families climbed from 9 to 20 percent.

In the 1960s the main reasons for the growth of female-headed families were population increase, the presence of children in marriages dissolved by death or divorce and marital dissolution itself. By the 1970s, the two main factors after population increase were marital dissolution and births out of wedlock.

Poverty rates among children in female-headed families consistently have been much higher and more persistent than those for children in male-present families. However, from 1978 to 1983 poverty rates increased faster among male-present families than in female-headed ones, increasing the share of poor children with a man in the home.

In 1983, almost 70 percent of families headed by never-married women were poor. These families have consistently been more prone to poverty than any other group.

The number of poor children increased by 3 million from 1968 to 1983, even though the total population of children decreased by 9 million in those years.

Because of the combined effects of family type and race, the composition of poor children varies by race. Among poor white children, nearly 40 percent live in female-headed families, whereas among poor black children that figure is nearly 75 percent.

In 1983, more than half of all children in families with five or more children were poor. In contrast, among children in families with only one or two children, just under 15 percent were poor.

If the proportion of children in female-headed families had not increased over the last quarter century, it is estimated that the number of poor children in 1983 might have been almost 3 million less than it actually was.

A child in a female-headed family is four times as likely to be poor as one in a male-present family. Moreover, the former child also is likely to be poorer, needing an average of almost $1300 in 1983 to reach the poverty threshold, almost 40 percent more than the $931 needed by the child with a man at home.

Never-married mothers present the most severe poverty problem (three out of four children of such mothers are poor) and their ranks are growing. In 1980 almost one-fifth of births were to unwed mothers.

Birth rates to unmarried teenagers have increased steadily since at least 1940. Even though birth rates among teenagers overall are declining, more of their babies have been conceived out of wedlock and fewer of the mothers are marrying before the birth.

If the incidence of never-married mothers had not increased from 1969 to 1979, it is estimated that the overall poverty rate might have been five percent lower in 1979.

2. Demographic Trends and Poor Children

This chapter examines the effects of demographic trends on poverty among children, scrutinizing the trends in family composition over the last 25 years and their relationship to changing levels of poverty among children. The analysis finds complex relationships. Since 1959, the first year for which the Bureau of the Census has calculated poverty rates, the number and share of female-headed households has risen in all years except one. In the same years the incidence of poverty among children has followed a very different path: it decreased in the 1960s, fluctuated while trending upward in the 1970s, and increased significantly in the late 1970s and early 1980s.

The following sections address the relationships between poverty among children and the following demographic factors: (1) family type; (2) race; (3) family size; (4) the combined effects of these demographic trends; (5) what poverty rates among children might have been had family composition not changed; (6) the relationship between family type and the income deficit; and (7) the relationship between teenage fertility and poverty.

Three notes about the terminology used in this chapter are appropriate at this point. First, most of this analysis deals with the family, which is defined by the Census Bureau as a group of two or more persons related by birth, marriage, or adoption and residing together. However, when data are available only for households or when it seems more appropriate to use such data, the unit studied is the household: all persons who occupy a housing unit. Second, female-headed families are frequently contrasted to male-present families in this chapter. Because of the small number of one-parent male-headed households, the male-present families include families with two parents present as well as families with a male head but no wife present, according to Census Bureau convention. Third, the data in this chapter are based on "related children," that is, children under age 18 who are not the head of a family or their spouse, but who are living with other family members.

DEMOGRAPHIC TRENDS AND POVERTY RATES: FAMILY TYPES

POOR CHILDREN AND FAMILY TYPE

One parent vs. two parents

Family composition affects the number of children in poverty because children are necessarily dependent on other family members to provide for their economic well-being. The ability of a family unit to provide for its children is related to the number of adults in the family and their resources. Obviously, the more adults present and the greater their capacities to provide, the less likely the family will be poor. Family composition therefore serves as a very rough proxy for the social, economic, and personal resources which the family as a whole can amass to meet its needs.

Female vs. male family head

A child is four times as likely to be poor if living in a family headed by a woman rather than a man. In 1983, more than half the children in female-headed families were poor (55.4 percent). Among children in male-present families the poverty rate was 13.4 percent. Of all poor children, more than half lived in female-headed families. For all poor white children, the share in female-headed families was 40 percent; for poor black children, the figure was 75 percent.

Education, labor force participation, employment, earnings, total income, and assets as well as economies of scale all vary among different types of households.[3] A major reason for many of these variations is the sex of the family head. Women in general have lower rates of labor force participation, command lower wages than men, and have fewer assets than do men.[4] In addition, rates of family formation and dissolution vary among people with different levels of education and at different levels of economic well-being.[5]

THE TREND TOWARD FEMALE-HEADED FAMILIES

The image of a family as a mother, father, and children—long a prominent theme in American social life—has been eroded in recent years. Trends in the formation and dissolution of marriages have contributed to rapid increases in one-parent families. In particular, the number of female-headed families has increased dramatically over the last decade, accelerating long term trends apparent in this country throughout this century.

Data on the numbers and percentages of different types of families show that these changes have been extensive. Since 1959, the number of female-headed families has more than doubled, from 4.5 million to 9.9 million, as shown in Table 3-1. That increase has been the result of more than just natural increase in the total number of families; indeed, the share of all families that are headed by females has increased from 10.0 percent in 1959 to 15.9 percent in 1983, an increase of nearly 60 percent. In comparison, the number of male-present families increased by nearly 30 percent over the same period, but this represented a decrease from 90.0 percent in 1959 to 84.1 percent of all families in 1983. The increase in female-headed families has been steady over the entire period.

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[3] Levitan, Sar and R.S. Belous. What's Happening to the American Family? Baltimore, Johns Hopkins Press. 1981; Masnick, George and Mary Jo Bane. The Nation's Families, 1960-1990 Cambridge, Mass. Joint Center for Urban Studies. 1980; Green, Gordon and Edward Welniak. Changing Family Composition and Income Differentials. U.S. Bureau of the Census. CDS-80-7. August, 1982.

[4] Kreps, Juanita M. Sex, Age, and Work. Baltimore. Johns Hopkins University. 1975. Hill, Martha S. Female Headship and the Poverty of Children. Five Thousand American Families. Vol. X. Ann Arbor. Institute for Social Research, 1983.

[5] Glick, Paul C. and Arthur J. Norton. Marrying, Divorcing, and Living Together in the U.S. Today. Population Bulletin. Vol. 32. No. 5. Washington, D.C. 1977.

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TABLE 3-1.—FAMILIES BY TYPE, SELECTED YEARS, 1959–83

Year	Total families	Female-headed families	Percent of total	Other families	Percent of total
1983	61,997	9,878	15.9	52,119	84.1
1982	61,393	9,469	15.4	51,924	84.6
1981	61,019	9,403	15.4	51,616	84.6
1980	60,309	9,082	15.1	51,227	84.9
1978	57,804	8,458	14.6	49,346	85.4
1977	57,215	8,236	14.4	48,979	85.6
1976	56,710	7,713	13.6	48,997	86.4
1975	56,245	7,482	13.3	48,763	86.7
1974	55,712	7,242	13.0	48,470	87.0
1973	55,053	6,804	12.4	48,249	87.0
1972	54,373	6,607	12.2	47,766	87.8
1971	53,296	6,191	11.6	47,105	88.4
1970	52,120	6,001	11.5	46,119	88.5
1969	51,586	5,591	10.8	45,995	89.2
1968	50,531	5,461	10.8	45,070	89.2
1967	49,833	5,333	10.7	44,500	89.3
1963	47,436	4,882	10.3	42,554	89.7
1959	45,054	4,493	10.0	40,561	90.0

Along with the increase in the number and proportion of female-headed families overall has come a corresponding but somewhat larger increase in such families with children. Table 3-2 shows that the number of female-headed families with children increased by about 160 percent over the period 1959 to 1983, from 2.5 million to 6.6 million. Male-present families with children increased by only about 7 percent over this period. As a result, the share of families with children that were headed by females increased from 9.4 percent in 1959 to 20.2 percent in 1983.

TABLE 3-2.—FAMILIES WITH CHILDREN BY TYPE, SELECTED YEARS, 1959–83

Year	Total families	Female-headed families	Percent of total	Other families	Percent of total
1983	32,723	6,609	20.2	26,114	79.8
1982	32,567	6,397	19.6	26,170	80.4
1981	32,587	6,488	19.9	26,099	80.1
1980	32,772	6,299	19.2	26,473	80.8
1978	31,735	5,837	18.4	25,898	81.6
1977	31,637	5,709	18.0	25,928	82.0
1976	31,430	5,310	16.9	26,120	83.1
1975	31,377	5,119	16.3	26,258	83.7
1974	31,331	4,922	15.7	26,409	84.3
1973	30,997	4,597	14.8	26,400	85.2
1972	30,810	4,322	14.0	26,488	86.0
1971	30,724	4,076	13.3	26,648	86.7
1970	30,071	3,837	12.8	26,243	87.2
1969	29,995	3,384	11.3	26,611	88.7
1968	29,323	3,269	11.1	26,054	88.9
1967	29,032	3,190	11.0	25,842	89.0
1963	28,317	2,833	10.0	25,484	90.0
1959	26,992	2,544	9.4	24,448	90.6

FACTORS CAUSING THE INCREASE IN FEMALE-HEADED FAMILIES

This increase in female-headed families with children has resulted from specific demographic changes in our society. No single factor explains the trend, and the behavior of individuals and families are involved. The increase in the percentage of female-headed families with children can be examined more closely to determine which demographic factors have led to this unprecedented increase. What factors have played more important roles? Have there been so many more births out of wedlock? Have the increases in the divorce rate been responsible? Have more divorces occurred among families that have children present? Have mothers without spouses present increasingly been choosing to live on their own rather than living with another family? Or has there simply been an increase in the adult female population?

Between 1960 and 1970 the number of female-headed families with children increased by 1.1 million families, an increase of 66.6 percent. The rate of increase between 1970 and 1980 was faster, so that the number of female-headed families with children increased by 2.0 million in that decade, a gain of 74.4 percent. By 1980, the count of female-headed families with children reached 4.8 million. (These data are not consistent with the data series in the preceding section because they are based on data from the 1980 Census, and do not include female-headed families with a male present or women who are married with an absent spouse, but not separated. The data in this section are internally consistent for the purposes of measuring changes between decades.)

Chart 3.1 disaggregates the components of growth of female-headed families with children over the two decades, from 1960 to 1980,[6] to shed light on the reasons for these rapid increases. The chart shows the percentage shares of the total increase in female-headed families with children accounted for by a selected set of five major demographic trends:

(1) Population growth. The general increase in the number of all families that would naturally be accompanied by a proportionate increase in female-headed families;

(2) Rate of marital dissolution. The change in the proportion of ever-married women who are separated, widowed, or divorced;

(3) Proportion of dissolved marriages with children. The change in the proportion of women whose marriages have been dissolved who have dependent children continuing to live with them;

(4) Changes in patterns of living arrangements for unmarried women with children. The change in the proportion of never-married or formerly-married mothers with dependent children who head their own households rather than living with another person or family in their household;

(5) Births out of wedlock. The change in the proportion of never-married women who have dependent children.

[Note.—Data on which this chart is based are provided in Appendix I, which has support tables for all charts in the report.]

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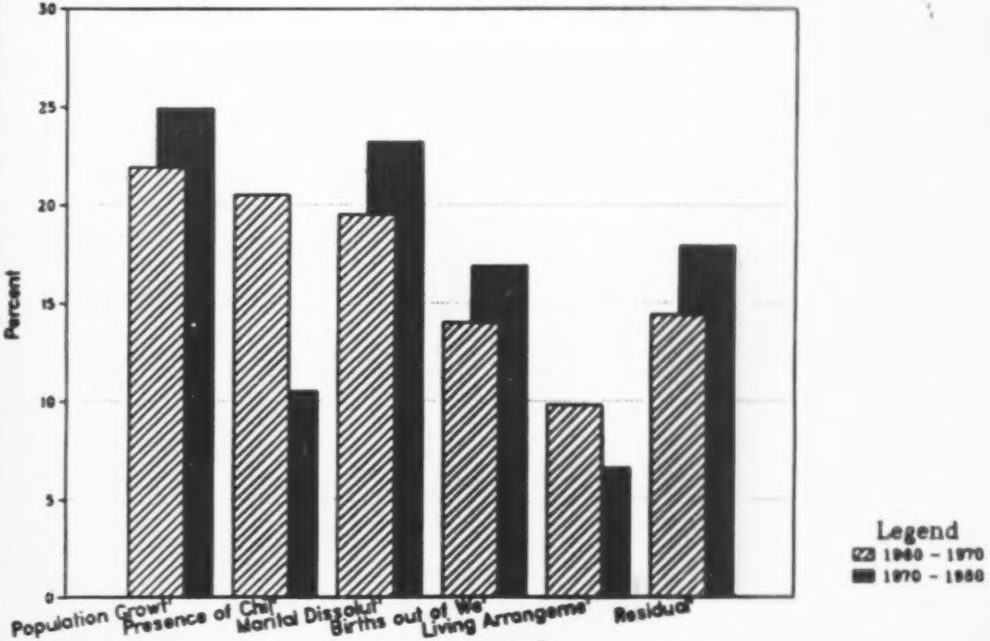
[6] The chart is patterned after that of Heather L. Ross and Isabel V. Sawhill in their Time of Transition: The Growth of Families Headed by Women. Washington, D.C. The Urban Institute. 1975. p. 22.

CHART 3.1

Major Components of Growth in the Number of Female–Headed Families with Children: 1960 – 1980



The relative importance of these factors varied between the two decades. In each case, population growth played the single most important role in the increase; the increase in the number of adult women was of course directly associated with an increase in the number of female-headed families. However, population growth accounted for only about a fourth of the increase in female-headed families in the 1970s and slightly less in the 1960s.

The trend from 1960 to 1970

Most of the increase was attributable to changes in patterns of marriage, births, and living arrangements. In the 1960s, next to population increase the second most important factor was an increase in the presence of children in marriages disrupted by divorce or widowhood. That is, during this period a rising proportion of the divorces (and widowhoods) involved children who subsequently stayed with their mothers. This accounted for more than a fifth of the increase in female-headed families with children from 1960 to 1970.

The third most important factor was the actual rate of marital dissolution—divorces, separations, and deaths of spouses. Relatively more existing marriages were dissolved in this period, accounting for slightly less than a fifth of the increase in female-headed families with children. A majority of this was due to increases in the divorce rate. These two factors (presence of children in disrupted marriages and marital dissolution) meant that during the 1960s an increasing proportion of marriages were being dissolved and more of these involved children. Population increase, the increase in marital dissolutions, and the increasing presence of children in dissolved marriages accounted for more than 60 percent of the increase.

The next most important factor in the increasing number of female-headed families with children was an increase in births out of wedlock. This accounted for about 14 percent of the increase in this decade. Of the demographic factors under consideration, the least significant was the trend for an increasing proportion of women who experienced a marital dissolution or who had children out of wedlock to maintain their own household rather than live as a "subfamily" in another household.

The trend from 1970 to 1980

In the 1970's, there was a slight shift in the order of importance of the different factors explaining the increase in female-headed families with children. The most important factor remained population growth, accounting this time for one-fourth of the increase. Second most important, however, was the increase in the rate of marital dissolution (primarily divorce); this trend also accounted for nearly one-fourth of the increase. The importance of births out of wedlock was greater than in the preceding decade, accounting for 16.9 percent of the increase. The trend to increasing numbers of marital dissolutions involving children continued, but to a lesser extent, so that only 10.5 percent of the increase was attributable to this factor in the 1970s. The trend for relatively more never-married or formerly-married women to maintain their own households continued, but again this factor was the least significant, account-

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ing for only 6.6 percent of the increase. A slightly larger proportion of the increase in the 1970s was unexplained by any of these factors than had been the case in the 1960s (17.9 percent compared to 14.4 percent).

Differences by race

The relative importance of these causal factors (changes in living arrangements, marital dissolution, presence of children, births out of wedlock, and population growth) varied between the white and black populations, as shown in Tables 3-3 and 3-4. Among white families, as Table 3-3 shows, in the 1960s, after population growth, the order of importance was: (1) marital dissolution, (2) presence of children in marriages that were dissolved, (3) separate living arrangements of unmarried women with children, and (4) increased numbers of births out of wedlock. In the 1970s, as Table 3-4 shows, the patterns shifted so that the presence of children in disrupted marriages was the most important, accounting for nearly 30 percent of the increase. After that was marital dissolution, and only third in importance was general population growth. Again, changing patterns of living arrangements and increases in births out of wedlock accounted for the smallest share of the increase.

Among non-white families, the most important factor explaining the increase in female-headed families with children in the 1960s was the presence of children in marriages that were dissolved, as Table 3-3 shows. Next most important was the increasing rate of births out of wedlock. Only after these factors came population growth and marital dissolutions. The trend toward separate living arrangements accounted for the smallest share of the increase. In the 1970s, shown in Table 3-4, the relative importance of these factors for non-whites shifted differently from the way they changed for whites. The trend of the presence of children in marriages that were dissolved declined among non-whites, so that relatively fewer marital dissolutions involved children. This factor would actually have reduced the number of black female-headed families with children if the other remaining factors had not led to an increase. Population growth was the most important factor operating to increase such families. (The very high percentage attributed to population growth in the table results from negative change in the factor, "presence of children;" population growth accounts for an excess gross amount of the change. However, the net change of all six factors adds to 100 percent.) Next most important was a continued increase in births out of wedlock.

TABLE 3–3.—COMPONENTS OF GROWTH IN THE NUMBER OF FEMALE-HEADED FAMILIES WITH CHILDREN LESS THAN 18, BY RACE, 1960–70

Component of change	White		Nonwhite	
	Families (thousands)	Percent	Families (thousands)	Percent
Population growth	171	24.3	62	15.9
Marital dissolution	160	22.7	61	15.6
Presence of children	139	19.7	92	23.5
Living arrangements	75	10.7	31	7.9
Births out of wedlock	58	8.2	83	21.2
Remainder	101	14.3	62	15.9

TABLE 3–4.—COMPONENTS OF GROWTH IN THE NUMBER OF FEMALE-HEADED FAMILIES WITH CHILDREN LESS THAN 18, BY RACE, 1970–80

Component of change	White		Nonwhite	
	Families (thousands)	Percent	Families (thousands)	Percent
Population growth	247	15.9	600	126.8
Marital dissolution	354	22.7	20	4.2
Presence of children	449	22.8	–243	–51.4
Living arrangements	107	6.9	13	2.7
Births out of wedlock	107	6.9	92	19.5
Remainder	294	18.9	–9	–1.9

TRENDS OF CHILDREN IN FEMALE-HEADED FAMILIES

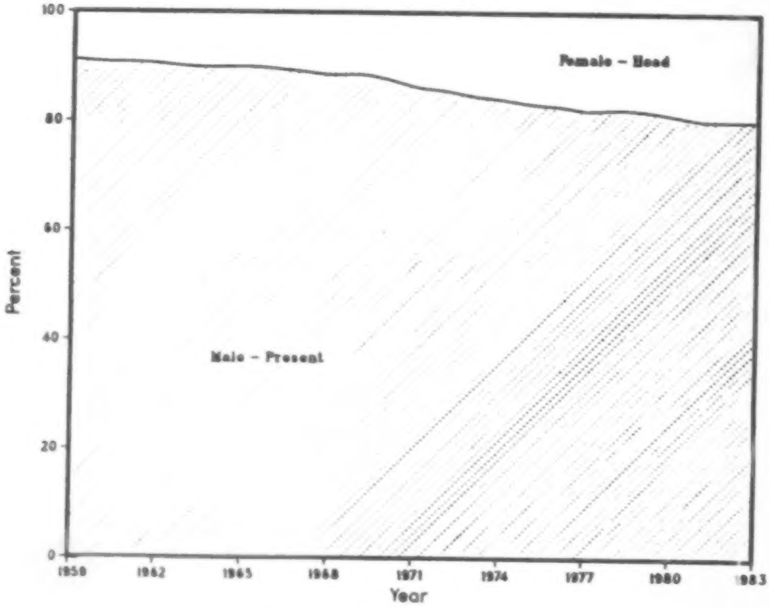
As the proportion of female-headed families in the Nation has increased, the living arrangements of children in families also have changed. Although the total number of children has been declining since the late 1960's, the number of children in female-headed households has been increasing steadily. The total number of children under 18 reached a peak of 70 million in 1968 and has been declining fairly evenly ever since, to 61 million in 1983. However, the number of children in female-headed households increased from 6 million in 1959 to 7 million in 1968, and continued upward to 12 million in 1983.

Growth in the share of children in female-headed families

The increase in the number of children in female-headed households in the face of a substantial decline in the total number of children has resulted in a significant drop in the percentage of children who live in male-present households (combining both two-parent families and those headed by a man living without a spouse). From 1959 to 1983, the share of children living in male-present families fell from 91.2 percent to 80.4 percent, a drop of nearly 12 percent. Conversely, as shown in Chart 3.2, the percentage of children who live in female-headed households more than doubled in this period (increasing 118 percent), from 9.0 percent to 19.7 percent. This increase in the proportion of children in families headed by females means that increasingly more children are living in exactly those families which are most prone to poverty.

CHART 3.2

Percentage Distribution of All Children by Family Type 1959 – 1983



TRENDS IN POVERTY RATES OF CHILDREN, BY FAMILY TYPE

A first perspective on the relationship between family composition and poverty among children can be gained by examining poverty rates for different family types. Has the increased proportion of female-headed families in the general population—the feminization of families—that has just been documented been accompanied by an increase in the proportion of female-headed families that are poor? In particular, have children in female-headed families been disproportionately affected? This section examines these demographic questions, leaving to Chapter IV the discussion of the social and economic factors that lead female-headed families to be more prone to poverty.

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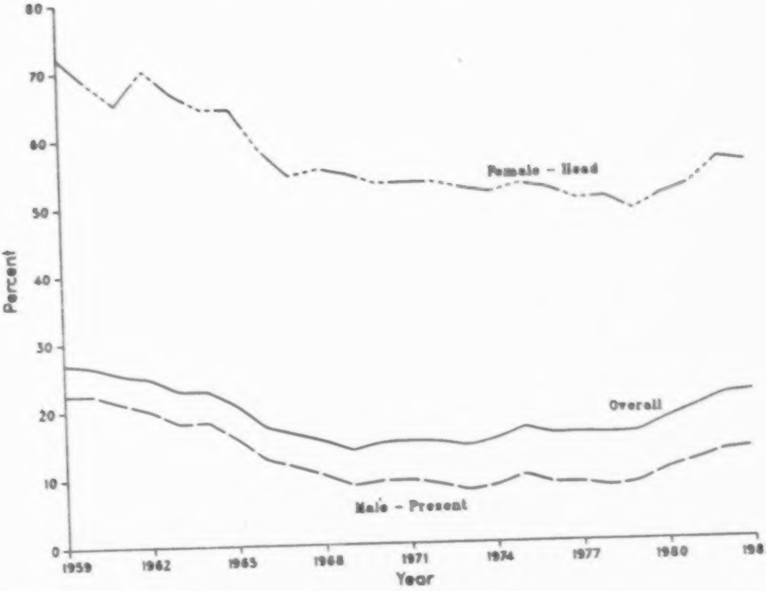
Female vs. male family head

While the number and proportion of children in female-headed families have been increasing steadily since 1959, the incidence of poverty in different types of families has been changing. As noted in Chapter II, there have been three periods with different patterns of change in the poverty rates since 1959. The first, from 1959 to 1969 was one of generally declining poverty rates. From 1969 to 1978, the poverty rate fluctuated, but trended upward. From 1978 to 1983, the poverty rate increased consistently and sharply. This pattern was generally reflected in the poverty rates for children in different types of families.

Among children in female-headed families, the incidence of poverty declined in most years from 1959 to 1970, with two years of increasing rates, as shown in Chart 3.3. From then until 1979, the rate fluctuated, but the net movement over the period was downward, so that in 1979 the poverty rate among children in female-headed families was 48.6, in comparison to 53.0 in 1970. After 1979, the rate increased annually, reaching a high of 56.0 in 1982 and declining slightly to 55.4 in 1983.

CHART 3.3

Poverty Rates for Related Children by Family Type: 1959 – 1983



In male-present families, the trend varied in a similar manner in these three periods. The poverty rate for children in such families declined from 22.3 in 1960 to 8.6 in 1969. It then fluctuated with a very slight net reduction through 1979 (to 8.5 percent), and then increased steadily to 13.4 percent in 1983.

Although the directional trends in the poverty rates for children in these different types of households have been the same, two aspects of these changes are of interest. First, the relative sizes of the changes have been greater in male-present families than in female-headed families. Poverty among children in female-headed families declined by slightly more than 22 percent in the 1960s, in comparison to a decline of more than 61 percent among children in male-present families. Conversely, when poverty was increasing in the late 1970s and early 1980s, it increased by 14 percent among children in female-headed families but by nearly 58 percent for children in male-present families.

The larger percentage changes for children in male-present families are related to the much lower initial level of poverty for these children (a 5-percentage point increase on a base of 8.5 percent represents a relatively greater increase than a 5 percentage point increase on a 48.6 percent base rate). However, it also means that the reduction in poverty in the earlier period was not evenly spread, nor was the later increase. The level of poverty for children in female-headed families, as a result, appears to have been not only much higher, but also more persistent and stable than the rate for children in male-present families.

Second, in the 1970s, when poverty was fluctuating among children both in female-headed and male-present families, the poverty rate for children in each type of family examined separately was slightly lower in 1979 than it had been in 1969. However, the poverty rate for all children represents a weighted average of the poverty rates of children in the different types of families. (That is, as the percentage of children in female-headed families in the total population increases, their contribution to the overall poverty rate increases. Their higher rate becomes an increasingly important factor in determining the overall rate.) As a result, overall among children the poverty rate in 1979 was 16 percent higher than it had been in 1969 (increasing from 13.8 percent in 1969 to 16.0 percent in 1979).

This increase resulted from the increased proportion of children living in female-headed families. The numerical relationship between changes in types of families and changes in the poverty rates will be examined in detail in a later section. Nevertheless, it is already clear that the combination of the higher poverty rate for children in female-headed families and the increasing proportion of such families can lead to increasing levels of child poverty overall, even when the actual trend in the poverty rate for children in either type of family is downward.

Different types of female-headed families

Different types of female-headed families have different rates of poverty. Women who have never been married and have children are least likely to have adequate resources to care for a family. Widows and women who have been divorced may or may not have resources both in and outside of their household to draw upon for support. However, the nature of support for divorced women is different from that for widows. Although both depend on their own earning capacity and assets, the former might draw on child support and alimony from their previous husband whereas the latter are more likely to depend on survivors' payments of various sorts. Table 3-5 shows the different poverty rates in the different types of female-headed families. It shows poverty rates for female family heads who have been divorced, widowed, or never married for the period 1979 to 1983.

The figures support the hypothesis that children of never-married mothers are subject to the highest poverty rates. In 1979, more than 60 percent of such families were in poverty, and by 1983, the figure was nearly 70 percent. Children with divorced or separated mothers have consistently had the next highest poverty rates, with the rates in such families ranging from about 37 percent in 1979 to about 44 percent in 1983. Children whose father has died and who are being raised by the mother have had the lowest poverty rates for children in female-headed families. Poverty levels in these families ranged from more than one-fourth in 1979 to more than one-third in 1983.

TABLE 3-5.—POVERTY RATES FOR FEMALE-HEADED FAMILIES BY MARITAL STATUS, 1979-83

Year	Marital status of female head			
	Total	Widowed	Separated or divorced	Never married
1983	47.8	34.1	44.1	69.0
1982	48.2	37.2	43.5	69.9
1981	45.1	33.4	41.1	67.0
1980	43.5	30.7	40.7	65.7
1979	39.7	26.3	36.8	62.7

The composition of children according to the marital status of their parents shows a dramatic difference between poor children and all children. As Chart 2.8 in Chapter II shows, in 1983, although 77 percent of all children lived in families with two parents, less than half of all poor children (46 percent) lived in these families. In contrast, while more than 33 percent of all poor children lived with parents who were separated or divorced, only about 15 percent of all children did so. More than three times as many poor children (nearly 14 percent) lived with a never-married mother than was the case for all children (about 4 percent).

FAMILY COMPOSITION OF POOR CHILDREN

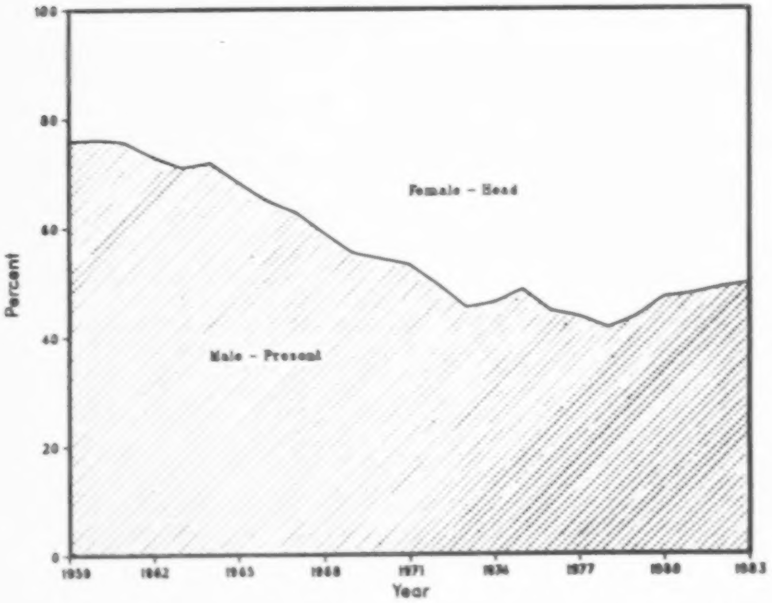
A second perspective on poverty is gained by examining the composition of the population of children who live in poverty. The combination of changing patterns of family composition and relative differences in trends in the incidence of poverty in families of different types suggests that the family characteristics of poor children have changed in recent years.

Percent of poor children by family type

In 1959, only 24.1 percent of poor children were in female-headed families. But over the next two decades, as Chart 3.4 shows, as the percentage of children in the population who were in female-headed families increased, the share of poor children in such families climbed even faster. This reflected the increasing incidence of poverty and numbers of children in such families.

CHART 3.4

Percentage Distribution of Children in Poverty 1959 – 1983



From 1959 to 1969, when poverty in general was declining, it was declining at a slower rate for children in female-headed families than for those with fathers in the home. In combination with the increasing proportion of all children in female-headed families, this slower decline in the poverty rate of such children meant that increasingly more of the Nation's poor children were living in female-headed families. While the overall poverty rate was declining, the percentage of poor children in female-headed families increased from 24.1 percent in 1959 to 44.7 in 1969, a rise of 85 percent over the period.

From 1970 to 1978, when the overall poverty rate for children fluctuated with a slight upward trend, the proportion of all children in female-headed families increased more rapidly than in the pre[illegible] the poverty rate declined more

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sharply in this period for female-headed families than for male-present families, the effect of the rapid increase in female-headed families in the general population was that the share of poor children who lived in female-headed families continued to increase through much of the 1970s, to a peak level of 58.3 percent in 1978.

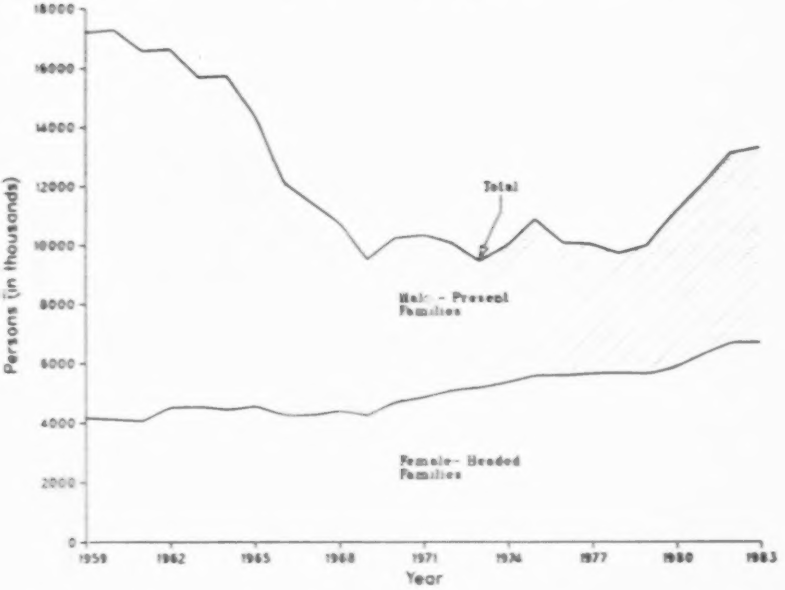
Beginning in 1979, however, the components of the equation began to change. Poverty rates among all children began to increase, but the increase was faster in male-present families than in female-headed families. Children in these male-present families included more than 80 percent of all children, so the growth in their poverty rates increased their share of the nation's poor children. The percentage of poor children who lived in female-headed families began a sustained decline for the first time since 1959. By 1983, the percentage of poor children who lived in female-headed households had declined to 50.3 percent, a drop of 14 percent from 1978. This decline occurred even though the percentage of all children in female-headed families continued to increase during this period (See Chart 3.2), and even though the poverty rate among children in female-headed families was increasing.

Numbers of poor children, by family type

The net result of the changes in the incidence and composition of children in poverty is that the number of poor children in female-headed families continued to increase from 1978 to 1983, as it had from 1959 to 1978. Chart 3.5 provides a different perspective on the issue of the composition of children in poverty, for it presents the actual number of children in poverty in the two types of households. Over the period 1959 to 1983, the number of poor children in female-headed families increased steadily but gradually, showing no response to trends of declining poverty overall. The number of such children increased from 4.1 million in 1959 to 5.7 million in 1978, to 6.7 million in 1983.

CHART 3.5

Composition of Children in Poverty According to Family Type 1959 – 1983



However, the number of poor children in male-present families dominated the patterns of decreasing poverty from 1959 to 1969, decreasing from 13.1 million in 1959 to 5.3 million in 1969, a decline of 60 percent. The trend levelled out somewhat over the next decade, fluctuating but declining to 4.4 million in 1978, a drop of 17 percent. Then again from 1979 to 1983, trends in poverty for these male-present families dominated the general trend in poverty, as the number of children in such households in poverty increased to 6.6 million in 1983, a rise of 25 percent in 4 years.

Both the percentage of children overall who live in female-headed families and the percentage of poor children in such families slightly more than doubled from 1959 to 1983. In fact, the increase for all children in female-headed families was slightly greater, at 119 percent, compared to an increase of 109 percent for poor children in female-headed families.

This review of the data shows that during the 24 years, 1959 to 1983, the feminization of households was associated with increasing numbers of poor children, even though the poverty rate for children in female-headed families had declined somewhat. The different trends during this period may indicate that changes in poverty rates in other families have a greater effect on trends in the overall poverty rate among children than have trends in poverty rates in female-headed families. This issue is more precisely explored after the next section.

DEMOGRAPHIC TRENDS AND POVERTY RATES: RACE

RACE AND POVERTY AMONG CHILDREN

Race is a second demographic characteristic that is closely related to poverty; the incidence of child poverty in all types of households is higher for blacks and Hispanics than it is for whites. In 1983, rates among black children were nearly three times higher than among white children, at 46.3 and 16.9 percent respectively. However, rates among black children had been more than four times higher than among whites, a decade earlier. As poverty rates among white children have increased faster than among black children since the early 1970s, the difference between the two has narrowed.

Trends in poverty rates

Although the levels are sharply different, the trends in poverty rates among black and white children were similar. As shown in Chart 3.6a, poverty rates among white children declined from 20.6 percent in 1959 to a low of 9.7 percent in 1969; from that time they fluctuated until they began to increase again to 16.9 percent in 1983. Among black children, the rates declined from 48.1 percent of black children in poverty in 1959 to the low of 39.6 percent in 1969. After a period of fluctuation that rate also increased again, to 46.3 percent in 1983.

For Hispanic children, data are available to chart poverty trends only since 1973. For 6 years, from 1973 to 1979, the rate fluctuated so that 21 to 26 percent of Hispanic children were poor. Thereafter, the rate increased steadily, reaching 37.8 percent by 1983.

CHART 3.6a

Poverty Rates for Related Children by Race and Ethnicity : 1959 – 1983

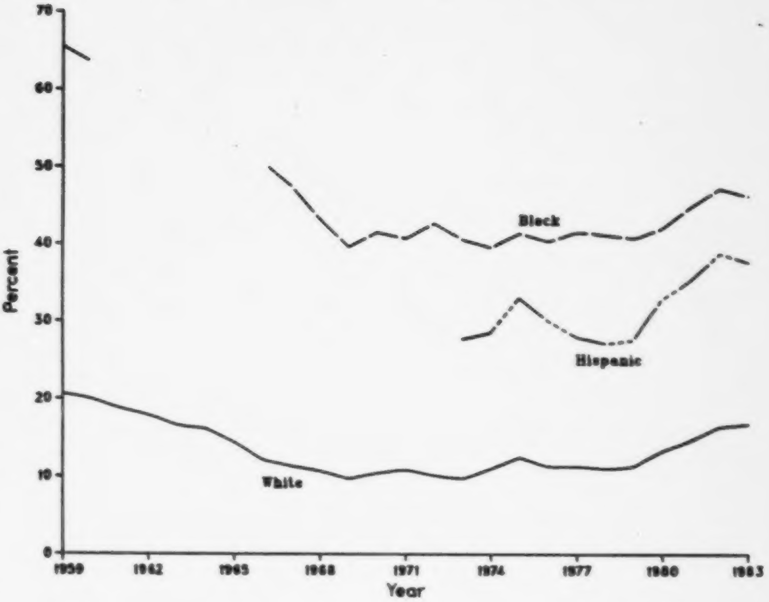
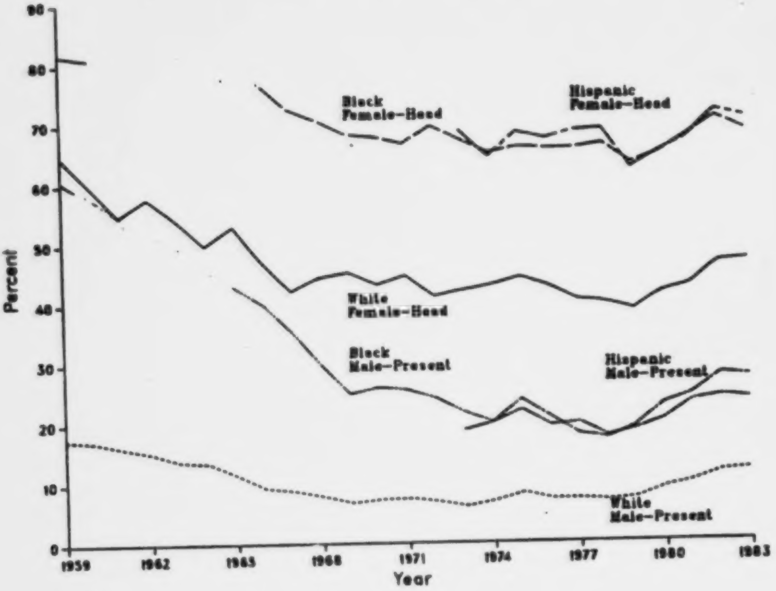


CHART 3.6b

Poverty Rates for Related Children
by Race and Family Type: 1959 – 1983



Race and family type

Chart 3.6b also shows that poverty in the different family types varies consistently by race. Black or Hispanic children in female-headed families are much more likely to be poor than are white children in such families. The same is true of the different race groups for male-present families, but the difference here is not so great.

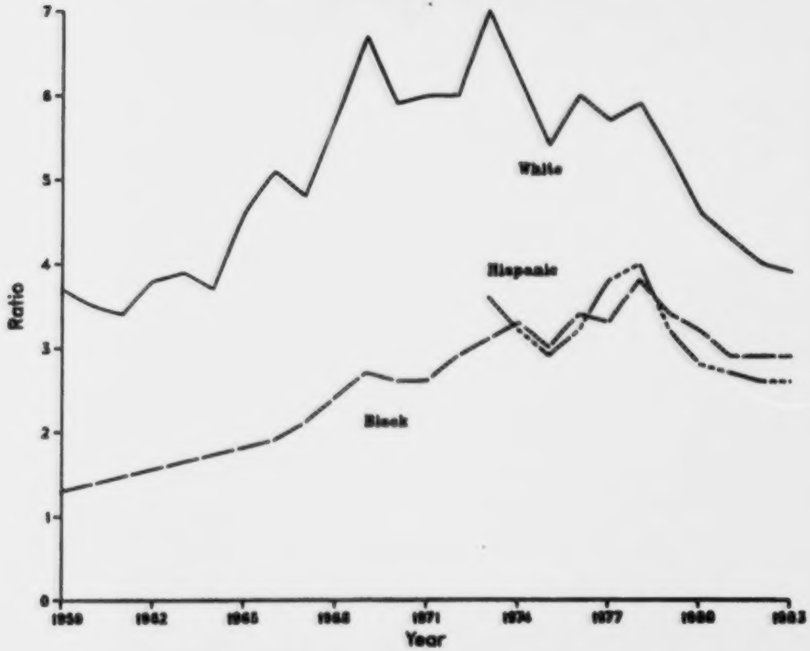
Chart 3.6b shows another unexpected effect from disaggregating poverty rates by family type. Overall, black children have higher poverty rates than Hispanic children. However, when these data are broken down by family type, it is clear that Hispanic children in either female-headed families or male-present families have often had higher or equivalent rates of poverty (during the period observed) than have black children in either of these types of families. The lower rate of overall poverty among Hispanic children results from a relatively lower proportion of Hispanic children in female-headed families.

The combined effects of race and family type are shown in Chart 3.7, which gives the ratio of the poverty rates for children in female-headed families to the rates for children in male-present families, by race. This ratio can be increased in either of two ways.

First, if the poverty rate in female-headed families rises more than the rate in male-present families, the ratio will increase. Alternatively, if the incidence of poverty declines in male-present families relatively more than female-headed families, the ratio will rise. Thus, in 1983, a white child living in a female-headed family was more than 4 times as likely to be poor as one living in a male-present family. The ratio had been higher—white children in female-headed families were up to 7 times as likely to be in poverty as those in male-present families—when poverty rates among male-present families were lowest in the 1970s. For a black child, however, living in a female-headed family meant being nearly three times as likely to be poor. Hispanic children living in female-headed families were more than 2.5 times as likely to be poor as Hispanic children in male-present families. The lower ratio in black and Hispanic families has been consistent over the period being analyzed and results from the higher poverty rates among male-present families in these groups.

CHART 3.7

Ratio of Poverty Rates in Female – Headed Families with Children to Male Present Families with Children

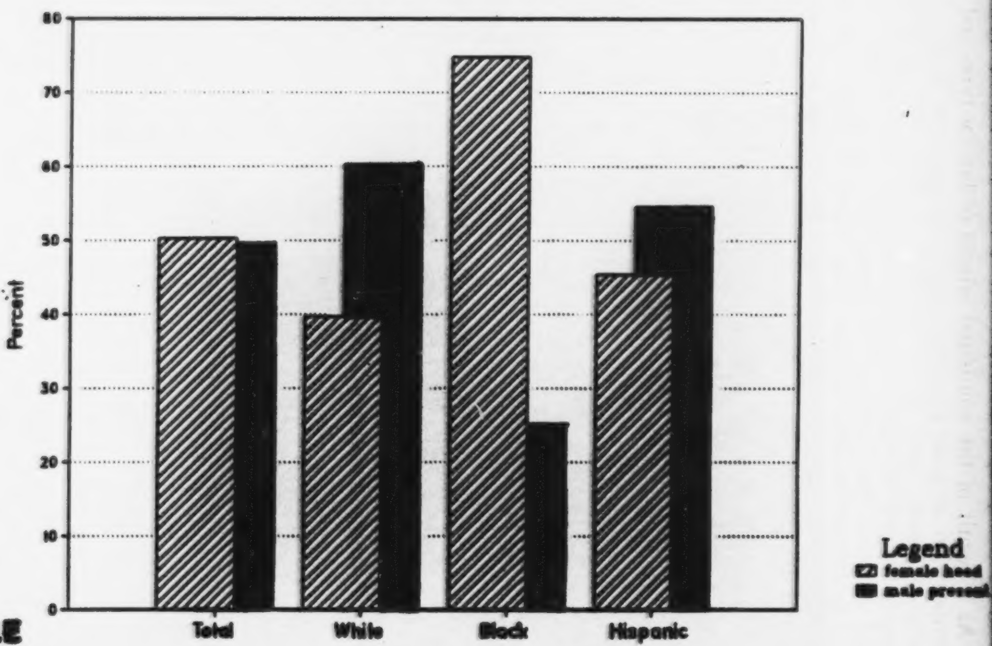


Composition of children in poverty by race and family type

As a result of the combined effects of family type and race, the composition of poor children varies by race, as Chart 3.8 shows. Whereas among poor white children, in 1983, 39.7 percent lived in female-headed families, among poor black children that figure was 74.8 percent. For Hispanic children, 45.4 percent of poor children live in female-headed families. The relatively higher proportion of children in female-headed families in black families has been consistent over the period observed.

CHART 3.8

Composition of Children in Poverty by Race : 1983



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The number of poor children in the different race and family type groups is presented in Chart 3.9. This chart shows that as the total number of children in poverty has varied over time, different groups have contributed to the changes. As poverty among children declined in the 1960s, it was white children in male-present families who experienced the most substantial reduction in numbers. There was a smaller decline in the number of black children in male-present families. Among female-headed families of either race, the number of children in poverty did not decline in this period; in fact, among white female-headed families, the number increased slightly.

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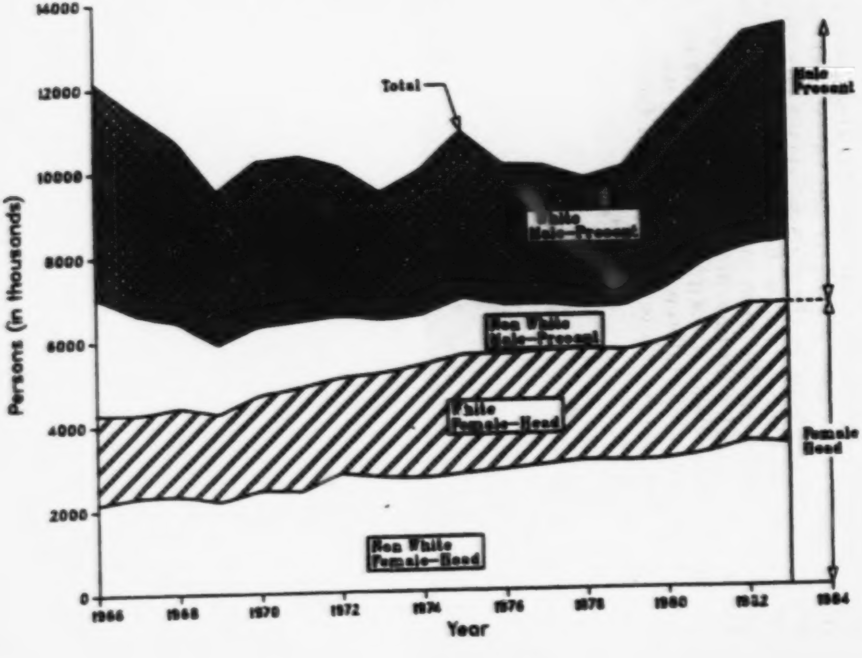
CHART 3.9

Composition of Child Poverty Population According to Family Type and Race: 1966 – 1983



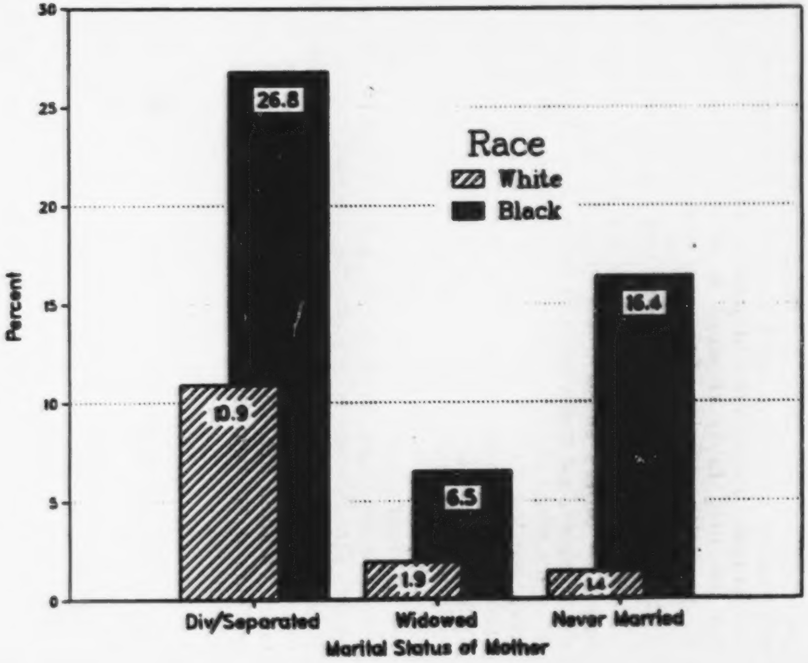
Since the late 1960s, changes in the number of chidlren in poverty have been affected by two different trends. In general, the number of poor children in female-headed families of either race has increased gradually but steadily. The total number of poor children, however, fluctuated through the 1970s before it increased from 1979 to 1983. These dominant trends resulted from changes in the number of poor children in white, male-present families. Over this period, the number of poor children in black, male-present families held fairly constant so that they had little effect on changes in the number of children in poverty.

d. Composition of children by race and marital status of parents

The composition of children by the marital status of their parents also differs substantially by race. Black children, as was shown above, are much more likely to be in a female-headed family than are white children. This is the case for all three marital statuses, but the difference by race is particularly dramatic for children with never-married mothers. As Chart 3.10 shows, black children in general are nearly twelve times as likely to live in families with never-married mothers as are white children (16.4 percent and 1.4 percent respectively). Black children are also nearly two and one-half times as likely to live with a divorced or separated parent as are white children (26.8 percent and 10.6 percent, respectively). The differences between the two race groups diminish when only poor children are compared, but there is still a substantial difference, particularly with respect to never-married mothers. Poor black children are 4.3 times as likely to live with never-married mothers as are poor white children (28 percent and 6.6 percent, respectively).

CHART 3.10

Share of All Children living in
a Female-Headed Family by Marital Status of Mother and Race: 1983



DEMOGRAPHIC TRENDS AND POVERTY RATES: FAMILY SIZE

ISSUES OF FAMILY SIZE

Family size is another aspect of family composition that is directly related to the number of children in poverty. It affects the poverty status of children in two respects. First, the number of persons in a family affects its level of need; the official measure of poverty acknowledges that larger families need more money. On a purely statistical basis, one might expect that a higher proportion of families with more children would be living in poverty, simply for this reason. Consider two families earning the same income. The family with more children is more likely to be in poverty, because its poverty threshold is higher than that for the small family with fewer children.

Second, a poor family with more children contributes more to the count of children in poverty than does a poor family with fewer children. Each family adds only one unit to the count of families in poverty, but larger families add more to the count of persons or children than small families. Thus, if larger families are somewhat more likely to fall into poverty, they also will contribute disproportionately to the poverty rate among children.

FAMILY SIZE AND POVERTY AMONG CHILDREN

Table 3-6 shows that in 1983 over half of families with five or more children were poor. This was nearly four times higher than the rate among families with only one or two children, of which just under 15 percent were poor. (Note that this is the rate for families, not children in families.) This general relationship has held over the last 25 years, with the incidence of poverty among the larger families ranging from slightly over three to four times higher than among smaller families. Over the period 1969 to 1983, the poverty rate among families with five or more children more than doubled, while the rate among families with one or two children increased by slightly more than 80 percent.

TABLE 3-6.—POVERTY RATES FOR FAMILIES BY SIZE: 1959-83

Year	Families with 1 or 2 related children	Families with 3 or 4 related children	Families with 5 or more related children
1959	14.2	24.5	53.0
1969	7.9	12.4	27.5
1970	8.6	13.4	29.9
1971	9.1	14.2	30.7
1972	8.8	14.7	30.3
1973	8.6	14.5	29.5
1974	9.5	15.9	32.7
1975	10.2	17.1	37.8
1976	10.2	17.1	34.9
1977	10.2	17.9	36.1
1978	10.3	17.8	37.3
1979	9.6	19.5	38.9
1980	12.0	21.5	43.5
1981	12.6	24.8	48.2
1982	14.2	26.9	53.1
1983	14.5	27.6	55.8

As the size of families in general has declined over this period, the effect of the higher poverty rates for larger families on the overall poverty rate among families has declined. This effect can be seen by examining the composition of poor families according to the number of children in the family, shown in Table 3-7. Whereas in 1959, over 20 percent of all poor families with children had five or more children, by 1983 that figure had declined to fewer than 7 percent. Over this period, the percentage of poor families with three or four children fluctuated between 29.8 and 34.1 percent, but there has not been a consistent trend. The percentage of poor families with only one or two children, however, has increased fairly steadily from about 45 percent in 1959 to nearly 65 percent in 1983. Thus despite the higher poverty rates among larger families, increasingly more poor families are of smaller size. However, as the incidence of poverty in larger families has increased faster than among smaller families, even though they represent a declining share of all poor families, they continue to have a large effect on the overall poverty rate.

TABLE 3-7.—COMPOSITION OF POOR FAMILIES BY NUMBER OF RELATED CHILDREN UNDER 18, SELECTED YEARS: 1959–83

Year	Total poor families	Poor families without children	Poor families with children	Families with 1–2 children	Percent	Families with 3–4 children	Percent	Families with 5 plus children	Percent
1959	8,320	2,877	5,443	2,458	45.2	1,854	34.1	1,131	20.8
1963	7,554	2,563	4,991	2,118	42.4	1,724	34.5	1,149	23.0
1967	5,667	2,081	3,586	1,590	44.3	1,137	31.7	859	24.0
1968	5,047	1,700	3,347	1,465	43.8	1,119	33.4	763	22.8
1969	5,005	1,779	3,226	1,514	46.9	1,051	32.6	661	20.5
1970	5,260	1,769	3,491	1,662	47.6	1,121	32.1	711	20.4
1971	5,303	1,621	3,682	1,845	50.1	1,175	31.9	663	18.0
1972	5,075	1,454	3,621	1,818	50.2	1,181	32.6	620	17.1
1975	5,450	1,278	4,172	2,263	54.2	1,309	31.4	599	14.4
1979	5,461	1,380	4,081	2,385	58.4	1,321	32.4	374	9.2
1980	6,217	1,395	4,822	3,038	63.0	1,415	29.3	369	7.7
1981	6,851	1,660	5,191	3,187	61.4	1,610	31.0	394	7.6
1982	7,512	1,800	5,712	3,583	62.7	1,711	30.0	418	7.3
1983	7,641	1,792	5,849	3,723	63.7	1,741	29.8	385	6.6

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WHAT ARE THE COMBINED EFFECTS OF THESE DEMOGRAPHIC TRENDS?

That children in families of different types have different tendencies to be poor has been documented in the preceding sections. The demographic trends addressed were race, family type, and size of family. Combining these factors provides greater insights into the types of children who are most likely to be poor. To synthesize the information from the preceding sections, Chart 3.11 shows the characteristics of all children as well as poverty rates for children and composition of poor children according to characteristics of their families, for selected years from 1970 through 1983.[7]

Each cell in the chart provides three pieces of information about that category of family. The first figure in each "cell" is the percentage of all children who are in that category; the second figure is the percentage of all poor children who fall in that category; the third figure is the poverty rate among children in that category. For example, in 1974, the figure shows that 4.6 percent of all children were in white, female-headed families with three or more children. About 16 percent of all poor children were in such families. The poverty rate in these families was 54.0 percent.

The individual trends of increasing prevalence of both female-headed families and small families can be seen by examining the percentages of all children in these families. Children in large families formed an increasingly small share of the children in the population, overall, both in female-headed and male-present families, and in both race categories (blacks and other races were combined in this chart because the level of disaggregation does not permit a separate examination of other races). Also, among both whites and non-whites, the percentage of children in female-headed families increased steadily.

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[7] The concept for this data presentation is drawn from Danziger, Sheldon. Children in Poverty: The Truly Needy Who Fall Through the Safety Net. Institute for Research on Poverty Discussion Papers. University of Wisconsin-Madison. November 1981.

CHART 3.11. Distribution of Children and Incidence of Poverty

1970

Total
100.0 — Composition of Total Child Population
100.0 — Composition of Child Poverty Population
15.0 — Poverty Rate

White
84.4
59.1
10.5

Non White
15.6
40.9
39.5

Female – Head
7.5
21.6
43.0

Male – Present
76.9
37.5
7.3

Female – Head
5.4
24.4
67.7

Male – Present
10.1
16.5
24.4

1 – 2 Children
3.7
7.2
29.5

3 + Children
3.8
14.4
55.8

1 – 2 Children
32.4
8.5
3.9

3 + Children
44.5
29.0
9.8

1 – 2 Children
1.4
5.0
52.1

3 + Children
4.0
19.5
73.3

1 – 2 Children
3.0
2.7
13.2

3 + Children
7.1
13.8
29.2

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1974

Total
100.0
100.0
15.5

White
84.1
60.6
11.2

Non White
15.9
39.4
38.3

Female – Head
9.5
26.2
42.5

Male – Present
74.5
34.4
7.2

Female – Head
6.3
26.6
64.9

Male – Present
9.6
12.8
20.7

1 – 2 Children
4.9
10.1
31.8

3 + Children
4.6
16.1
54.0

1 – 2 Children
36.6
9.1
3.8

3 + Children
38.0
25.3
10.3

1 – 2 Children
2.0
6.8
51.6

3 + Children
4.3
19.8
71.3

1 – 2 Children
3.8
2.7
11.3

3 + Children
5.8
10.0
26.8

CHART 3.11. (Continued). Distribution of Children and Incidence of Poverty

1979

Total
100.0
100.0
16.0

White
82.7
59.1
11.4

Female – Head
10.6
2[illegible]
3[illegible]

1 – 2 Children
6.9
11.8
27.3

3 + Children
4.0
14.5
58 3

Male – Present
[illegible]
[illegible]
7.3

1 – 2 Children
42.6
11.5
4.3

3 + Children
29.3
21.3
11.6

Non White
17.3
40.9
37.8

Female – Head
7.7
30.3
62.8

1 – 2 Children
3.3
9.7
47.2

3 + Children
4.4
20.6
74.4

Male – Present
9.6
10.5
17.6

1 – 2 Children
4.6
2.7
9.3

3 + Children
5.0
7.9
25.1

1983

Total
100.0
100.0
21.7

White
81.6
63.5
16.9

Female – Head
11.6
25 2
46.9

1 – 2 Children
8.0
13.6
37.0

3 + Children
3.7
11.6
68.5

Male – Present
70.0
38.3
11.9

1 – 2 Children
43.8
15.1
7.5

3 + Children
26.1
23.2
19.3

Non White
18.4
36.5
43.1

Female – Head
8.1
25.2
67.7

1 – 2 Children
3.9
9.6
52.9

3 + Children
4.1
15.6
81.8

Male – Present
10.3
11.4
23.9

1 – 2 Children
5.3
3.6
14.7

3 + Children
5.0
7.8
33.6

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Over this period, poverty rates for different groups have not always changed in the same directions. As shown, the poverty rate for children in larger families has increased, in both family types and in both races. For example, the poverty among white, female-headed families with three or more children was increased from nearly 56 percent in 1970 to over 68 percent in 1983. In contrast, in most cases the poverty rate in smaller families showed a downward trend in the 1970s, followed by an upward trend in the 1980s. Since children in smaller families have consistently increased as a share of all children, their fluctuating poverty rates have had an increasing effect on the overall poverty rate, which also fluctuated over the last decade. The poverty rates for children in female-headed families of either size category are higher than those among male-present families of either size. Thus, for either race, the poverty rate for children among female-headed families with one or two children (in 1983, 37.0 and 52.9 among whites and non-whites, respectively) was higher than that among children in male-present families with 3 or more children (in 1983, 19.3 and 33.9 among whites and non-whites, respectively).

The differential poverty rates and composition of children in the population combine to cause the composition of children in poverty to be quite different from that of children overall. The percentages of children in poverty show that nonwhite children, children in female-headed families, and children in large families are represented to a greater extent among poor children than they are among children in general. The exceptions to these generalizations are also notable; white children in larger male-present families and non-white children in small, male-present families both form a smaller share of the poor population than they do of children in general. These exceptions are consistent over all years observed. As of 1983, children in smaller, female-headed families are about 70 percent more common in the poor population than they are in general (13.6 percent of all poor children in comparison to 8.0 percent of all children). In larger families, however, they are more than three times more common in the poor population (11.6 percent vs. 3.7 percent). Among non-white children the effect of family size operates in the same manner, but these children have the added effects of race: those in smaller, female-headed families are more than twice as common in the poor population as in general (9.6 percent vs. 3.9 percent) and those in larger, female-headed families are nearly four times more common among poor children (15.6 percent vs. 4.1 percent). Even with a male present in the family, non-white children in larger families have an added disadvantage, for they are 54 percent more common among poor children than in general (7.8 percent vs. 5.0 percent).

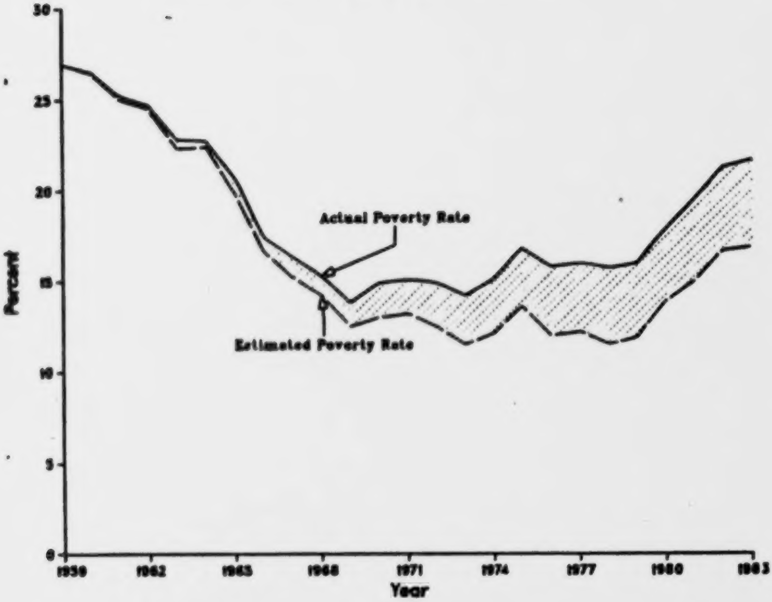
Even though children in families with a male present are less common among poor children than among all children, their share of all poor children has increased since 1979. This results from their being such a high proportion of all children and the increasing poverty rates for this group. This chart shows that the increasing share occurred among children in both large and small families, but that it was greater among small families. For example, the percentage of poor children who are white and in smaller male-present families increased from 11.5 percent in 1979 to 15.1 percent in 1983. Those in the larger families increased to a lesser extent, from 21.3 to 23.2 percent of all poor children.

WHAT WOULD CHILD POVERTY RATES HAVE BEEN IF FAMILY COMPOSITION HAD NOT CHANGED?

If family composition had remained as it was in the beginning of the period being analyzed, with current poverty rates for different types of familes, the overall poverty rate would be lower. This is the result of increases in the relative frequency of female-headed families which are more prone to poverty. Chart 3.12 shows the computation of hypothetical poverty rates over the period 1959 to 1983 if family types had remained constant since 1959, but poverty rates in each year had changed as they did.

CHART 3.12

Estimated Child Poverty Rate Assuming Family Composition Had Not Changed



There are two points to note about this chart. First, it clearly shows that poverty rates would have been lower among children overall if changes in family composition had not occurred over the last 25 years. The data show that in 1983 the poverty rate among children would have been 16.9 percent, or 22 percent lower than the actual rate of 21.7 percent if only the same proportion of families in each race group were headed by females as was the case in 1959.

The second point to note is that the effects of household composition changes have not been constant, but have interacted with relative changes in the poverty rates among different types of households. That is, even though the proportion of children in female-headed families has increased steadily during this period, the gap between the actual poverty rates and those calculated assuming no changes in family composition has not continued to grow. To the contrary, when poverty rates in general were declining or fluctuating, from 1959 through the late 1970s, the declines were relatively greater among children in male-present families. Therefore, the effects of changing family composition were emphasized as more children lived in female-headed families and their poverty rates remained relatively higher. The gap reached its highest point in 1978, when poverty rates were 26 percent higher than the hypothetical rate calculated. But when poverty rates were increasing overall, they were increasing at a faster rate among male-present families, from the late 1970s to 1983. This diminished the cumulating effects of increasing shares of children living in female-headed families, and the gap between the actual rates and the hypothetical rates shown here began to shrink. Thus, the gap between these figures was greatest in the late 1970s when poverty rates among children in male-present families had declined the most relative to those among children in female-headed families.

Because of implicit assumptions in this kind of analysis, the results should be interpreted with caution.[6] Not all the difference between the observed and the hypothetical poverty rates can be attributed to simple changes in family composition, for that interpretation assumes that poverty is directly associated with family type and not with other economic factors operating on the incomes of specific families. It could be, however, that the increased numbers of female-headed families observed in recent decades came from family situations in which they were more likely to be poor. In this case, many of them would have been poor whether or not they had made the transition to a female-headed family. If they had remained in a male-present family, that family would have been poor, raising the rate for such families and leaving the overall poverty rate about as observed.

Bane distinguishes between two types of composition-related poverty. The first is poverty in female-headed families that became poor as a result of changes in income or need at the time the family was established. The second is poverty showing up in female-headed families that were poor before they established the new family or might have been poor in any case because of personal income loss. Controlling for changes in family type, as in the preceding paragraphs, does not distinguish between the two; as such, these "controlled" rates should be interpreted carefully.

INCOME DEFICIT AND FAMILY TYPE

The effects of poverty in the population can be measured not only by the incidence of poverty of different groups but also by the severity of their poverty. One measure of that severity is the "income deficit," or the additional income that would be required to bring a family up to the poverty level. The aggregate income deficit is the sum of all individual family income deficits. Table 3–8 shows the aggregate and per capita income deficits for different types of families. The total aggregate deficit is the sum of the aggregate deficits for all poor families and for poor unrelated individuals; in 1983 that figure was $47.1 billion, using total cash income and the official poverty measure to determine the figure. The aggregate deficit for families with children was $26.9 billion or 57 percent of the total deficit. Although poor children in female-headed families were 50.3 percent of all poor children, their aggregate income deficit was 55.4 percent of the total deficit for poor families with children. The differential in poor black families is greater than in poor white families; 45 percent of the total deficit among white families with children is among those that are female-headed, in comparison to 78 percent of the deficit among black families with children. This aggregate differential is somewhat misleading, however, because the number of families vary greatly among the different race and sex of householder groups. The size of the group directly affects the size of the aggregate deficit.

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[6] The following discussion is drawn from Bane, Mary Jo. Household Composition and Poverty. IRP Conference Paper presented at Williamsburg, VA. Dec. 6-8, 1984. University of Wisconsin-Madison. See also Chapter II of this report.

Another way of looking at the deficit is the per capita deficit. This is the aggregate deficit divided by the total number of persons who are included in the poor families in the category. Using the official poverty measure and total income, the per capita deficit for all poor families with children in 1983 was $1,103. That figure varied considerably among families of different types, however. Among all female-headed families, the per capita deficit was higher, at $1,297. This figure did not vary substantially between white and black female-headed families. The per capita deficit of female-headed families was more than 39 percent higher than that of male-present families, $931. Race does not appear to be related to the level of the per capita deficit among male-present families, either.

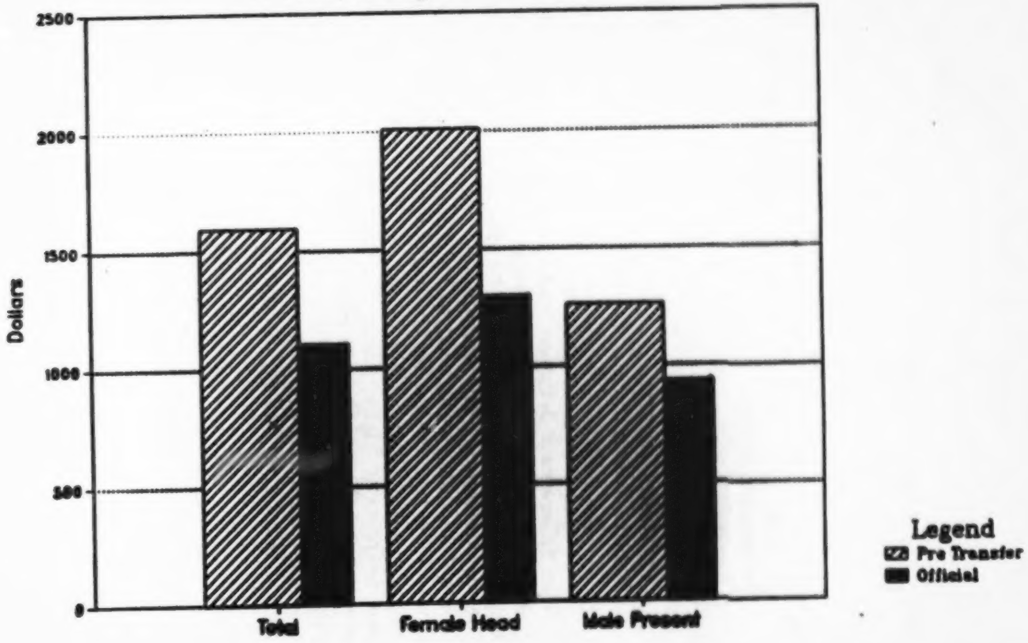
TABLE 3–8.—AGGREGATE AND PER CAPITA INCOME DEFICIT FOR FAMILIES WITH CHILDREN BY RACE AND FAMILY TYPE, 1983

Deficit measure and family type of families with children	Income measure by race					
	Pre-transfer income deficit			Total income deficit: official poverty measure		
	Total	White	Black	Total	White	Black
Aggregate deficit (billions):						
All families	$46.4	$28.8	$15.5	$26.9	$16.8	$9.0
Female-headed families	26.2	13.4	12.0	14.9	7.5	7.0
Male-present families	20.2	15.3	3.5	12.0	9.3	2.0
Per capita deficit:						
All families	1,596	1,485	1,827	1,103	1,071	1,182
Female-headed families	2,008	1,984	2,036	1,297	1,308	1,293
Male-present families	1,261	1,216	1,348	931	934	906

The differential between male-present and female-headed families with children would be greater if social insurance and welfare income were not included in the measure of a family's income in the calculation of the income deficit, of if pre-transfer income (market income) were used to calculate the deficit. As Chart 3.13 shows, the per capita deficit among female-headed families was slightly more than $2,000 before all transfer income. This figure was 59 percent higher than the corresponding measure for male-present families, just over $1,250. This greater differential in the pre-transfer per capita deficit reflects the effects of the eligibility rules for different income transfer programs, under which families with a male present are, in general, much less likely to be eligible.

CHART 3.13

Comparison of Pre-Transfer Income Deficit with Official Income Deficit for Children on a Per Capita Basis: 1983



TEENAGE FERTILITY AND POVERTY

Changing patterns of childbearing and childrearing among the Nation's youth raise the question of whether teenage fertility and births out of wedlock might be responsible for a significant portion of the higher poverty among children. If the birth rate among teenagers is increasing or the proportion of births out of wedlock is increasing (or both), then to the extent that these factors are associated with higher levels of poverty, the concern is that they may be contributing to overall increasing levels of poverty. The issue can be examined through four questions: 1) What has been the trend in birth rates among teenagers in recent years? 2) What have been the trends in births to teenagers in and out of wedlock? 3) How are these trends related to the level of poverty? and 4) How are these trends related to changes in the poverty rate?

TEENAGE BIRTH RATES

Overall, trends in the birth rates to teenagers have followed the same trends as in the population at large in recent years. Since 1960, birth rates to women aged 15 to 19 have declined. As Table 3-9 shows, in 1960 the birth rate for white women in this age group was 79.4 (births per 1,000 women in the age group). By 1970 that had declined to 57.4, and by 1982, the latest year for which data are available, the rate was 44.6, a decline of 44 percent since 1960. Data for black women are not available prior to 1964, but birth rates for this group have declined from 147.6 in 1964 to 97.0 in 1982, a decline of 34 percent over the same period when births to white teenagers declined by 30 percent. Birth rates in this age group, however, in the black population remain more than twice as high as in the white population.

Birth rates among 18-19 year olds are substantially higher than among 15-17 year olds, for both races. However, among these older adolescents, the decline in birth rates since the late 1960s has been much steeper than among the younger women. For white women 18-19, the decline from 1966 to 1982 was 34.6 percent compared to 5 percent among women 15-17; for black women, the declines were 39.2 and 27.3 percent respectively.

TABLE 3-9.—BIRTH RATES TO WOMEN AGES 15 TO 19, 1960 TO 1981

Year	Birth rate[1]					
	All women 15 to 19		15 to 17		18 to 19	
	White	Black	White	Black	White	Black
1960	79.4					
1961	79.2					
1962	73.2					
1963	68.2					
1964	63.4	147.6				
1965	60.6	144.6				
1966	60.4	142.7	26.6	97.9	108.2	219.2
1967	56.9	141.8	25.7	99.5	104.0	213.4
1968	54.9	138.7	25.6	98.2	100.5	206.1
1969	54.7	137.0	26.4	96.9	99.2	202.5
1970	57.4	147.7	29.2	101.4	101.5	204.9
1971	53.6	134.5	28.5	99.4	92.3	192.6
1972	51.0	129.8	29.3	99.5	84.3	179.5
1973	49.0	123.1	29.2	96.0	79.3	166.6
1974	47.9	116.5	28.7	90.0	77.3	158.7
1975	46.4	111.8	28.0	85.6	74.0	152.4
1976	44.1	104.9	26.3	80.3	70.2	142.5
1977	44.1	104.7	26.1	79.6	70.5	142.9
1978	42.9	100.9	24.9	75.0	69.4	139.7
1979	43.7	101.7	24.7	75.7	71.0	140.4
1980	44.7	100.0	25.2	73.6	72.1	138.8
1981	44.6	97.1	25.1	70.6	71.9	135.9
1982	44.6	97.0	25.2	71.2	70.8	133.3

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[1] Births per 1,000 women in the age group.

Sources: U.S. National Center for Health Statistics. Vital Statistics of the United States, 1979: Natality. Table 1-6. U.S. National Center for Health Statistics. Monthly Vital Statistics Report: Advance Report of Final Natality Statistics. 1982. Table 4.

TEENAGE BIRTHS IN AND OUT OF WEDLOCK

At the same time that birth rates overall for 15 to 19 year olds have been declining, both the number and rate of births out of wedlock (births per 1,000 unmarried women) has been increasing. This apparent contradiction is not one. The classification of a birth as in or out of wedlock depends on the marital status of the mother at the time of birth, not at the time of conception. The rate of births out of wedlock, then, depends not only on the rate of conception out of wedlock but also on the proportion of women who conceive out of wedlock who marry before giving birth. Data on these issues are not available on an annual basis, but some information is available from special surveys and analyses.

Table 3-10 shows that between the two periods 1959-1962 and 1975-1978, out of all births to women aged 15 to 17 or 18 to 19, the proportion of births resulting from premarital conceptions increased substantially. Whereas among white women aged 15 to 17 in 1959-1962, over 45 percent of all births had been conceived premaritally, by 1975-1978 the figure had increased to more than 80 percent. The comparable figures for black women were 89.3 and 97.7 percent, for the two respective time periods. Among women 18 to 19, although the percentages were lower, the same trend was operating.

At the same time, the percent of premaritally conceived births that were legitimated declined for both black and white women, from 16.0 to 4.9 percent for black women and from 69.8 to 55.9 percent for white women aged 15 to 17. For women aged 18 to 19, the trend downward was even sharper, from 33.6 percent of all premaritally conceived births legitimated for blacks in 1959-1962 to 10.9 percent in 1975-1978, and from 72.7 to 60.4 among whites.

These figures show that the increases in recent years in births out of wedlock are associated with two demographic factors: 1) an increase in the percentage of conceptions that are premarital and 2) a decrease in the percentage of premarital conceptions that are legitimated before birth. Thus, even though overall birth rates to teenage women are declining, more of those births have been conceived out of wedlock and fewer of those mothers have wed before birth, leading the rate of births out of wedlock to increase in recent years.

TABLE 3-10.—TRENDS IN TEENAGE FERTILITY, MARRIAGE, AND BIRTHS OUT OF WEDLOCK, 1959–78

Period and age at first birth	Number of first births (in thousands)	Percentages					Percent of premaritally conceived births legitimated
		Total first births	Premaritally conceived			Postmaritally conceived	
			Total	Premarital births	Postmarital births		
White women:							
1959 to 1962:							
15 to 17	407	100.0	46.4	14.0	32.4	53.6	69.8
18 to 19	857	100.0	24.2	6.6	17.6	75.8	72.7
1963 to 1966:							
15 to 17	433	100.0	55.7	19.9	35.8	44.3	64.3
19 to 19	928	100.0	35.9	8.6	27.2	64.1	75.8
1967 to 1970:							
15 to 17	379	100.0	68.4	25.4	43.0	31.6	62.9
18 to 19	925	100.0	44.8	10.9	34.0	55.2	75.9
1971 to 1974:							
15 to 17	520	100.0	73.2	34.5	38.7	26.8	52.9
18 to 19	872	100.0	53.1	13.6	39.5	46.9	74.4
1975 to 1978:							
15 to 17	432	100.0	80.3	35.5	44.8	19.7	55.8
18 to 19	755	100.0	52.5	20.8	31.7	47.5	60.4

Black women:							
1959 to 1962:							
15 to 17	152	100.0	89.3	75.0	14.3	10.7	16.0
18 to 19	114	100.0	66.9	44.4	22.5	33.1	33.6
1963 to 1966:							
15 to 17	175	100.0	89.3	72.9	16.4	10.7	18.4
18 to 19	152	100.0	66.6	41.8	24.7	33.4	37.1
1967 to 1970:							
15 to 17	211	100.0	89.2	70.2	19.0	10.8	21.3
18 to 19	174	100.0	79.9	54.1	25.8	20.1	32.3
1971 to 1974:							
15 to 17	205	100.0	94.2	80.0	14.2	5.8	15.1
18 to 19	170	100.0	88.0	70.2	17.8	12.0	20.2
1975 to 1978:							
15 to 17	147	100.0	97.9	92.9	4.8	2.2	4.9
18 to 19	226	100.0	85.1	75.8	9.3	14.8	10.7

Source: O'Connell, Martin and Maurice J. Moore. The Legitimacy Status of First Births to U.S. Women Aged 15 to 24, 1939–1978. Family Planning Perspectives. Vol. 12, No. 1. January/February 1980, p. 18.

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As a result of these trends in total birth rates and share of births out of wedlock, the birth rates for adolescent women who are married have been declining in recent years at the same time that birth rates to unmarried women have been increasing. As Table 3-11 shows, birth rates to married women aged 15 to 19 declined fairly steadily from the late 1960s through 1979, regardless of race. Among white married women, birth rates declined by more than 20 percent from 1969 to 1979; the rates among black married women declined by more than 35 percent in the same period, so that by the end of the period, marital birth rates between the two race groups were comparable. Birth rates among married women at these ages are consistently much higher than among unmarried women, although relatively small proportions of the adolescent population are married. The rates for unmarried white women increased steadily through 1982, more than doubling from 1966 to 1982. The rates also increased among older white adolescents, increasing by nearly 80 percent in the same period. Among black unmarried adolescents, however, birth rates were much higher than among their white counterparts. The trend among black youth was different, for birth rates to black unmarried teenagers declined slightly over this period, by 6 percent from 1969 to 1982 among 15 to 17 year olds, and by nearly 10 percent among 18 to 19 years olds. Among both age groups there was a slight increase in the early 1970s followed by a more substantial decline. (Data are not consistently available for all these age/race groups because of the small numbers of cases involved.)

The net result of the low but gradually increasing birth rates among white unmarried adolescents, slowly declining rates among black unmarried adolescents, and the much higher but declining rates among married adolescents of both races has been that the birth rates among adolescents declined in recent years, as shown above in Table 3-10. In spite of these declining rates, young women remain the age group with the highest proportion of unplanned births; in 1982, fully 46 percent of all births to women aged 15 to 24 had been either unwanted or mistimed, compared to about 25 percent of births to older women.[9]

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[9] Pratt, William F., William D. Mosher, Christine A. Bachrach, and Marjorie C. Horn. Understanding U.S. Fertility: Findings from the National Survey of Family Growth, Cycle III. Population Bulletin. 39:5. Population Reference Bureau, Inc., Washington, D.C. December, 1984. p. 32.

TABLE 3-11.—ESTIMATED BIRTH RATES FOR MARRIED AND UNMARRIED WOMEN AGES 15–19, BY RACE: 1966 TO 1982

[Births per 1,000 women]

Year	Marital status, race, and age					
	Married		Unmarried			
	White, 15 to 19	Black, 15 to 19	White		Black	
			15 to 17	18 to 19	15 to 17	18 to 19
1966	438.8		5.4	14.1		
1967	424.1		5.6	15.3		
1968	422.0		6.2	16.6		
1969	423.1	514.6	6.6	16.6	72.0	128.4
1970	431.8	533.3	7.5	17.5	77.9	136.4
1971	403.4	511.7	7.4	15.8	80.9	136.3
1972	364.1	500.0	8.1	15.1	83.1	129.8
1973	330.6	453.7	8.5	15.0	81.9	123.0
1974	320.1	372.4	8.9	15.4	79.4	124.9
1975	311.8	329.8	9.7	16.6	77.8	126.8
1976	306.4	319.2	9.9	17.0	74.6	121.8
1977	307.6	345.7	10.7	18.8	74.3	125.9
1978	321.8	368.6	10.5	19.5	70.3	124.3
1979	337.6	333.8	11.1	21.2	72.5	128.8
1980			11.8	23.6	69.5	120.2
1981			12.4	24.6	66.9	117.6
1982			12.9	25.1	67.6	115.8

Sources: U.S. National Center for Health Statistics. Vital Statistics of the United States, 1979: Natality. Tables 1-32 and 1-33. And U.S. National Center for Health Statistics Monthly Vital Statistics Report: Advance Report of Final Natality Statistics, 1982, Table 18.

TRENDS IN POVERTY AMONG ADOLESCENT MOTHERS

The incidence of poverty among teenage women is the next factor of interest in the attempt to determine the contribution of births out of wedlocks to the general levels of poverty.

The data sources used in this analysis are not adequate to demonstrate the effect of teenage parentage on current high poverty rates among never-married teenage mothers. However, special studies of the long term effects of teenage motherhood have shown that early childbearing has substantial negative effects later in the lives of the women and their families. They earn less themselves and other family members earn less; as a result they are more likely to live in poverty.[10]

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[10] Hofferth, Sandra L. and Kristin A. Moore. Early Childbearing and Later Economic Well-Being. American Sociological Review. Vol 44. October, 1979. pp. 806–807.

EFFECTS OF CHILDBEARING OUT OF WEDLOCK ON OVERALL POVERTY RATES

In sum, at issue is the effect of childbearing out of wedlock on poverty rates observed for the total population. Since there is also childbearing out of wedlock at other ages (though at older ages, the relative importance of this phenomenon decreases sharply), this analysis addresses the effect of all such childbearing, regardless of the age of mother. Table 3-12 addresses the two questions: (1) how much of the change in the overall rate of poverty from 1967 to 1979 was a result of the increased prevalence of unwed mothers and (2) how much can be attributed to changes in their poverty rates?[11] In his analysis of the first issue, Gottschalk calculated what the overall poverty rate would have been in 1979 if the proportion of persons in the population who were in families with children headed by unmarried females had remained constant at its 1967 level of 0.5 percent rather than increasing as it did to 1.5 percent. The first line of Table 3-12 shows the actual poverty rates among all persons and among persons in families with children with a nonaged female head. The second line estimates what those rates would have been if the proportion of persons in families with children headed by unmarried females had remained at its 1967 level (and poverty rates for the different family types had changed as they did in these years). The difference betwen the actual and this simulated rate is 0.6 percentage points in the overall poverty rate, and 2.3 percentage points in the poverty rate among persons in these families. Thus, if the prevalence of never-married mothers in the population had not increased over the decade, overall poverty rates might have been 5 percent lower (11.1 vs. 11.7 percent). Poverty among all persons in female-headed families with children might have also been 5 percent lower (41.3 vs. 43.6 percent).

To examine the second question, the third line in Table 3-12 shows a simulated poverty rate under the assumption that the poverty rate among persons in families with children with never-married female heads had stayed at its 1967 level of 67.5 percent rather than declining to 65.7 percent as it did. This suggests that the decline in poverty in this group had very little effect on poverty, affecting poverty overall not at all and decreasing poverty among female-headed families with children by only 0.2 percentage points (43.6 vs. 43.8 percent). These simulations suggest that increased childbearing outside of marriage has had relatively little effect on levels of poverty.

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[11] The following discussion is drawn from analysis prepared by Peter Gottschalk for the Food and Nutrition Service, U.S. Department of Agriculture, October 1984.

TABLE 3–12.—IMPACT OF CHANGES IN THE PROPORTION AND POVERTY RATES OF PEOPLE LIVING IN FAMILIES WITH CHILDREN HEADED BY NEVER-MARRIED FEMALES ON THE OVERALL POVERTY RATE IN 1979

	Actual and simulated 1979 poverty rates (percent poor)	
	All persons	Persons in families with a nonaged female head with children
Actual	11.7	43.6
Simulated:		
Assuming no change in proportion in population [1]	11.1	41.3
Assuming constant poverty rate [2]	11.7	43.8

[1] Persons in never-married female-headed families with children held at .0046 of all persons and .160 of persons in families with a nonaged female head.

[2] Poverty rate of never-married female-headed families held at 67.5 percent.

Source: Gottschalk, Peter, unpublished work prepared for the Food and Nutrition Service, U.S. Department of Agriculture.

3. Discussion of the Demographic Trends

The previous sections showed the effects of recent demographic trends on the frequency and severity of poverty. Although trends in poverty might have been different had other demographic trends prevailed, the information demonstrated that the demographic changes were not simply causing changes in poverty, but were occurring throughout the population. Trends in poverty have been either accentuated or dampened by demographic trends over different periods since 1959.

What have been the causes for these demographic trends in recent years? One response is that these trends have built on decades of changes in the behaviors of American families, and they are not recent additions to our social fabric. While certain patterns have accelerated in recent years, as shown below, those patterns have been firmly rooted in decades of interrelated change. This section reviews the major demographic trends that have exacerbated the frequency of poverty, in an effort to place these trends in a broader historical context.

> Had the 1940's and 1950's not happened, today's young adults would appear to be behaving normally. Their family formation would reflect a continuation of historical trends. However, when the benchmark chosen to judge the family patterns of today's young adults is that of their parents' generation, those born since 1940 do appear deviant. When men and women born between 1920 and 1940 (age 40 to 60 in 1980) were young adults, marriages took place much earlier, fertility rates were higher and divorce rates were

> lower. But it was the parents' generation that deviated from the historical trends.[12]

In making this statement, Masnick and Bane imply two important aspects of recent studies of the family. First, the families of the 1950s do not necessarily provide the most useful basis for comparison of recent behavior, since behavior in a period called the baby boom was very different from long-standing trends of previous decades. Second, there is no agreement that the family as an institution is declining, even though in many respects it is evolving and exhibiting new forms, much as it always has.

This section examines general demographic trends during this century, focusing on those that directly affect changing family composition. The major topics addressed are trends in patterns of marriage, marital dissolution, births out of wedlock, and living arrangements of unmarried parents. The discussion provides some perspective on long term trends in the increasing prevalence of single-parent families as well as indications of how the trends have been accentuated in recent years. It then addresses how these broad demographic trends affect the family experiences of the children and how current trends of behavior will affect children in future years.

DIFFERENT PERSPECTIVES ON THE CHANGING FAMILY

Articles in the popular press and the work of some social scientists in recent years have expressed concern that the family as an institution may be breaking down. In her review of this perspective, Skolnick summarizes the belief that there were previous times when families were "strong and stable and harmonious. [Later] . . . something went seriously wrong." [13] Skolnick cites concerns expressed by different observers about changes in values, morals, behaviors, and sweeping cultural revolution, all pointing to the demise of the family as an institution. In facing the increase in divorce and one-parent families as well as declining birth rates, Fuchs concludes that the American family has troubles.

> In describing the decline in importance of the conjugal family, however, I am not predicting its disappearance; neither am I denying others the right to redefine the term "family" as they wish. But there is overwhelming evidence that individuals rely less on their families today than in the past for the production of goods and services and as a source of financial and psychological support in time of need.[14]

Skolnick also cites work by social scientists expressing very different views. Bane concludes from her research that, "Surprising stabilities showed up, and surprising evidence of the persistence of commitments to family life." She expresses concern that, "too hasty concern for replacing the 'dying' family may in fact bring about its untimely death." [15] Cherlin acknowledges major changes in family life, through divorce, remarriage, and cohabitation, and recognizes that these changes now place severe strains on many families. However, from a societal perspective he places these in the context of an evolving institution, concluding that "I think it is likely that these families will generate ways of resolving common problems which will come to be widely accepted as standards of conduct."[16] Finally, Levitan and Belous point out in their analysis of the family that the "normal" family of a working husband, nonworking wife, and children now comprise a minority of American families. They conclude that the family is an evolving but resilient institution, and that, "statistical evidence and other indications back up the position that the divorce rate will not grow nearly as rapidly in the future and may even become stabilized."[17]

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[12] Masnick, George and Mary Jo Bane. The Nation's Families: 1960–1990. Joint Center for Urban Studies of MIT and Harvard University. Cambridge, Mass., 1980.

[13] Skolnick, Arlene. The Intimate Environment: Exploring Marriage and the Family. Boston, Little, Brown, and Company, 1983. p. 6.

[14] Fuchs, Victor R. How We Live. Cambridge, Mass., Harvard University Press, 1983. p. 4.

Why are there such different conclusions reached by scholars who, in many cases, have studied the same information? One answer lies in the periods they choose for comparison. Those who compare recent trends in marriage, divorce, and one-parent families to the patterns of the 1950s conclude that people have changed dramatically and the changes reflect societal pressures of the second half of the twentieth century that we are unable to cope with effectively. Those who place recent trends in a longer term perspective tend to conclude that the family as an institution has always changed to respond to current social and economic pressures and the changes we observe today reflect long term adjustments to other social and economic trends. The halcyon days of the 1950s are the period that leads to more questions, because patterns of marriage and divorce in that time were so different from what preceded or followed.

The historical data on these trends show that current patterns sometimes continue and other times diverge somewhat from long-term patterns. The following sections briefly review these historical data. The information presented applies to all children, not just to poor children. Such data generally are not available to identify persons in poverty, particularly before 1959. However, even if such data were collected, its relevance would be highly questionable since the movement into or out of poverty before and after the demographic events of interest would make the poverty status of people at the precise time of the event of much less interest. These data demonstrate broad trends in the population as a whole that are related to changing family structures, and consequently, to the risk of poverty in the population. The next few sections review the following topics related to changing family structure: 1) marriage age and frequency, 2) marital dissolution, 3) remarriage behavior, 4) births out of wedlock, and 5) living arrangements.

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[15] Bane, Mary Jo. Here to Stay. New York, Basic Books, Inc., 1976. p. xiv.

[16] Cherlin, Andrew. Marriage, Divorce, and Remarriage. Cambridge, Mass., Harvard University Press, 1981. p. 92.

[17] Levitan, Sar and R. S. Belous. What's Happening to the American Family? Baltimore, Johns Hopkins Press, 1981. p. 20.

MARRIAGE

The timing and fact of marriage in the population serves as one indicator of the importance placed on the institution of the family.

AGE AT FIRST MARRIAGE

Western European and American patterns of marriage have historically involved relatively late marriage in comparison to other cultures. In previous centuries, men and women waited until at least their mid-twenties to marry, though men waited longer than women. "The distinctive marks of the 'European pattern' are (1) a high age at marriage and (2) a high proportion of people who never marry at all."[18]

In this century in the U.S., as shown in Table 3-13, the age at first marriage for both men and women declined slowly but steadily from the early years until the late 1950s. In the period following the Depression and World War II, people were marrying younger than before, consistent with other family-related behaviors discussed below. Since the mid-1960s, however, the timing of people's marriages has been more similar to established behavior over long periods, and, for both men and women, the age at first marriage has been increasing quite rapidly. As a result, in 1983, on average, men did not marry until their mid-twenties and women, until they were nearly 23 years old. These levels are comparable to prevailing behavior at the turn of the century. Though this table does not show it, this age pattern probably was the high point in a long, slow increase in the age at marriage through the nineteenth century.[19]

TABLE 3-13.—MEDIAN AGE AT FIRST MARRIAGE, BY SEX, 1890 TO 1983

Year	Men	Women
1890	26.1	22.0
1900	25.9	21.9
1910	25.1	21.6
1920	24.6	21.2
1930	24.3	21.3
1940	24.3	21.5
1950	22.8	20.3
1955	22.6	20.2
1960	22.8	20.3
1965	22.8	20.6
1970	23.2	20.8
1975	23.5	21.1
1980	24.7	22.0
1983	25.4	22.8

Source: U.S. Bureau of the Census. Current Population Reports. Series P-20, No. 389. Marital Status and Living Arrangements: March 1983. U.S. Government Printing Office. Washington, D.C. 1984.

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[18] Hajnal, J. European Marriage Patterns in Perspective. In Population in History. D. V. Glass and D. E. C. Eversley, eds. Chicago, Aldine Press, 1965.

[19] Laslett, Barbara. Family Membership, Past and Present. In Family in Transition. Arlene S. Skolnick and Jerome H. Skolnick, eds. Boston, Little, Brown, and Company, 1983. p. 61.

SINGLE PERSONS

The percent of people who have not yet married at a given age is another indication of the proclivity of people to marry. By their early 30's, relatively few people remain single (though, of course, some have married and divorced), so changes in the percent never married at this age indicate both changes in the percent of people who will likely never marry as well as changes in the timing of late marriages.

Table 3-14 shows a time series of the percentage of men and women who have not yet married by ages 30-34 over the period 1890 to 1983. The trend in this time series is very similar to that shown on age at first marriage. The percent never married was high in the early part of the century, but declined fairly steadily through the Depression. This series also shows the differences in behavior during the period of the baby boom, for in the period from 1950 to 1970, these percentages dropped dramatically for both men and women. These data indicate that an unusually high percentage of the population was marrying in these years, and that this trend was not firmly grounded in historical behavior.

TABLE 3-14.—PERCENT NEVER MARRIED AT AGES 30 TO 34, BY SEX, 1890 TO 1983

Year	Men	Women
1890	26.5	15.2
1900	27.6	16.6
1910	26.0	16.6
1920	24.1	14.9
1930	21.1	13.2
1940	20.7	14.7
1950	13.2	9.3
1960	11.9	6.9
1970	9.4	6.2
1980	15.9	9.5
1983	19.6	13.0

Sources: 1890-1960: U.S. Bureau of the Census. Historical Statistics of the United States, Colonial Times to 1970. U.S. Government Printing Office. Washington, D.C. 1975. 1970-1983: U.S. Bureau of the Census. Current Population Reports. Series P-20, No. 389. Marital Status and Living Arrangements: March 1983. U.S. Government Printing Office. Washington, D.C. 1984.

More recently, the percentage of people aged 30 to 34 who have not yet married has been increasing for both sexes, and it is now about at the level it was before 1940. Cherlin has estimated that about the same percentage of the people born in the first half of the 1950s will end up marying as among the generation of people born in the period from 1910 to 1914.[20] Thus, about 94 percent of these people will ever marry, compared to 96 percent of these born from 1930 to 1934, who were marrying younger in the 1950s.

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[20] Cherlin, Andrew J., p. 70.

The reversal of the trends of this century in terms of age at first marriage and percent never married may indicate that the nation is beginning a long-term increase in the tendency to delay marriage or not marry at all. Alternatively, it may indicate that the society is returning to more established patterns, and these patterns will level off rather than continue indefinitely in current directions of change.

MARITAL DISSOLUTION AND REMARRIAGE

Trends in the divorce rate tend to raise more concerns as indicators of the demise of the family. However, divorce is only one of the ways that marriages can end, for in earlier years many marriages were abruptly ended by the death of a spouse. Trends in both types of marital dissolution must be examined to understand more fully the increasing prevalence of one-parent families.

WIDOWHOOD

In the early part of the century, death of a partner ended many marriages in their early years. Time series data on how long marriages were likely to last before a death are not readily available, but Uhlenberg has estimated that in 1900 the probability that at least one parent would die before a child reached age 15 was .24, indicating that nearly one-fourth of all children had only one or no parents by the time they reached 15. By 1940 that likelihood had declined to only 10 percent, and by 1976 it was about 5 percent.[21] Clearly the impact of parental death on children's lives has declined dramatically in this century.

Hareven estimates that only about 40 percent of women before 1900 experienced an "ideal family cycle" of "leaving home, marriage, family formation, child rearing, launching, and survival until age 50 with the first marriage still intact." The majority, she concludes, "either never married, never reached marriagable age, died before childbirth, or were widowed while their offspring were still young children." [22] The picture of the intact family, lasting until all the children have left home, appears not to have been the norm, even before rising divorce rates led to increasing numbers of broken families.

In Table 3-15 an indication of the decline in widowhood is shown in the percent of persons aged 30 to 34 who were widowed, from 1890 to 1983. These ages are of interest because families tend to have young children in this age range. The figures reflect only people who are currently widowed, not people who ever become widowed or who have been so but have since remarried. At the turn of the century, 2.0 percent of men aged 30–34 were widowed, as were 4.6 percent of women. By 1983, the percentage of men widowed was less than one-tenth of one percent, and for women the figure had declined to 0.7 percent.

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[21] Uhlenberg, Peter. Death and the Family. In Family in Transition. Arlene S. Skolnick and Jerome H. Skolnick, eds. Boston, Little, Brown and Company, 1983. p. 96.

[22] Hareven, Tamara K. American Families in Transition: Historical Perspectives on Change. In Family in Transition. Arlene S. Skolnick and Jerome H. Skolnick, eds. Boston, Little, Brown, and Company, 1983. p. 84.

TABLE 3-15.—PERCENTAGE DISTRIBUTION OF PEOPLE WIDOWED OR DIVORCED AT AGES 30 TO 34, BY SEX, 1890–1983

Year	Male			Female		
	Widowed	Divorced	Total	Widowed	Divorced	Total
1890	1.8	0.2	2.0	4.5	0.5	5.0
1900	2.0	.4	2.4	4.6	.7	5.3
1910	1.8	.5	2.3	3.9	.8	4.7
1920	1.8	.7	2.5	3.9	1.0	4.9
1930	1.3	1.4	2.7	3.3	1.9	5.2
1940	.7	1.4	2.1	2.5	2.4	4.9
1950	.4	2.1	2.5	1.6	3.0	4.6
1960	.3	2.2	2.5	1.2	3.1	4.3
1970	.3	3.3	3.6	1.5	5.0	6.5
1980	.1	7.9	8.0	1.2	11.2	12.3
1983	.0	8.7	8.7	.7	11.0	11.7

Sources: 1890–1970: U.S. Bureau of the Census. Historical Statistics of the United States, Colonial Times to 1970. U.S. Government Printing Office. Washington, D.C. 1975. 1980: U.S. Bureau of the Census. Current Population Reports. Series P–20, No. 365. Marital Status and Living Arrangements: March 1980. U.S. Government Printing Office. Washington, D.C. 1984. 1983: U.S. Bureau of the Census. Current Population Reports. Series P–20, No. 389. Marital Status and Living Arrangements: March 1983. U.S. Government Printing Office. Washington, D.C. 1984.

DIVORCE

The divorce rate has been increasing steadily throughout the twentieth century. Table 3-15 also shows percentages of people aged 30 to 34 who were divorced at each date. Though these data do not show either the annual rate of divorce or the probability that couples will ever divorce, they do demonstrate that the likelihood that people will be divorced in their early thirties has increased steadily since at least 1890. That increase accelerated in the 1960s and 1970s. The 1983 data, however, indicate the possibility of a leveling off in the divorce rate.

Cherlin demonstrates clearly that the proportion of marriages ending in divorce has increased at an increasingly rapid rate since 1870. Marriages made during the Depression ended up having a likelihood of ending in divorce slightly higher than the trend line would have indicated. In contrast, marriages formed in the late 1940s and early 1950 had a lower probability of ending in divorce. More recent marriages, though subject to very high probabilities of ending in divorce, represent only slightly higher rates than a simple continuation of increasing divorce that has been well established over the last 100 years or more.[23] (Cherlin cites a study by the National Center for Health Statistics concluding that if trends continue in the 1980s and 1990s, nearly half of marriages made in the early 1970s may end in divorce.) It is important to recognize that the continuation of the increasing divorce rates analyzed here means the continuation of a strong upward swing in those rates, not a continuation of previous levels of divorce.

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[23] Cherlin, Andrew J., p. 23–25.

From 1890 to 1960, the likelihood that men or women would be in a disrupted marriage held about constant, although the dominant reason slowly shifted from widowhood to divorce. Nevertheless, it was not until after 1940 that the proportion of women divorced exceeded the proportion widowed in this age range. The combined effects of increasing divorce rates and declining rates of widowhood on marital dissolution during this century have meant that until the mid-1960's, the percentage of people who were either divorced or widowed fluctuated around 2.5–3.0 percent for men and 4.5–5.5 percent for women aged 30–34, as shown in Table 3–15. By 1970, that likelihood increased substantially, and by 1980 it nearly doubled again. Clearly the likelihood that a woman would spend at least some portion of her adult life in a disrupted marriage has increased dramatically over the last two decades. This trend results from the increasingly high levels of divorce since the mid 1960s.

Examining experiences over a longer period of married life, however, Uhlenberg has estimated the probability that a marriage would be disrupted by death or divorce in its first 40 years, and concluded that, largely as a result of declining mortality, that probability declined from .71 in 1900 to .60 in 1976.[24] Given trends shown in Table 3–15, however, it is possible that this probability could have reached a low point sometime in the 1950s or 1960s and has been increasing since then.

Although marital disruptions were not much more likely than at the turn of the century, their causes and effects were quite different. Particularly in the more recent decades, widowhood and divorce affect marriages at different stages. Divorce is more likely than widowhood to occur at a younger age, when there are more likely to be young children at home. Bumpass and Rindfuss estimate that in the late 1970s, "over one-third of all children spend a portion of their childhood during which their mothers are between marriages. Most of these children will eventually be part of a second marriage. However, the average time spent 'between marriages' before age 18 is four and one-half years, and for a substantial minority the experience lasts much longer."[25] This finding suggests that a period of living in a single parent family is perhaps becoming a widely experienced period of the family life cycle for many children. For some children, whose mothers have characteristics that make them least likely to remarry, these periods of the life cycle may be extended or last through the remainder of their childhood.

REMARRIAGE

With more marriages ending in divorce and lower mortality among all adults, it might be expected that rates of remarriage after marriages have dissolved would increase, and the data bear this out. As the divorce rate has increased, the proportion of all marriages which are remarriages following divorce of one or the other partner has also increased. "As a consequence, remarriages after divorce accounted for nearly one-fourth of men's marriages in 1975 compared to less than one-seventh in 1960." [26] Although some of this increase is accounted for by the increase in the divorce rate, the likelihood that a divorced person will remarry has also increased since the early part of the century. Cherlin estimates that until around 1940, about 100 out of each 1,000 divorced or widowed women would remarry each year. By the late 1970s that figure had increased to about 134.[27]

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[24] Uhlenberg, p. 98.

[25] Bumpass, Larry and Ronald R. Rindfuss. Children's Experience of Marital Disruption. American Journal of Sociology. 85:1 (July 1979). p. 63.

Although nearly three fourths of all women who divorce remarry within five years, an analysis by Thornton and Freedman indicates that there is wide variability between groups.[28] Women are less likely to remarry than are men. This is related to the decline in remarriage rates as people age to the relative drop in supply of marriageable men at older ages. In addition, men are more likely to remarry never-married women than the converse, a fact that also increases the size of the available pool for men in contrast to that for women. Blacks are also much less likely to remarry than are whites, reflecting two aspects of their marital disruptions: (1) they are more likely to separate without subsequently divorcing; and (2) they are less likely than whites to remarry following a divorce.

In this century remarriage rates have followed the same trends as have first marriages, with a substantial increase in the remarriage rate during the period following World War II. In the 1960s, though, remarriage rates continued to increase. The latter half of the 1970s saw a decline in remarriage rates that leveled off, as did divorce rates in the early 1980s.[29] It is not yet clear whether this recent decline in remarriage rates represents a declining probability of remarriage after divorce or an increase in the length of time people are spending between marriages.[30]

BIRTHS OUT OF WEDLOCK

Another way women can become heads of their own families is by having births out of wedlock. The prevalence of this phenomenon is related to delayed marriages discussed above in that women who delay marriage but not sexual activity are at risk of pregnancy and, if they become pregnant and do not marry before the birth, they will have births out of wedlock. The relationship between premarital conceptions and premarital births was discussed above, indicating that, at least among teenagers, part of the increase in premarital births over the last decade has resulted from a smaller portion of premarital conceptions being legitimated. This section focuses more directly on longer-term trends in births out of wedlock.

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[26] Glick, Paul C. and Arthur J. Norton. Marrying, Divorcing, and Living Together in the U.S. Today. Population Bulletin. 32:5. Population Reference Bureau Inc. Washington, D.C. 1977. p. 7.

[27] Cherlin, p. 29.

[28] Thornton, Arland and Deborah Freedman. The Changing American Family, Population Bulletin. 38:4. Population Reference Bureau, Inc. Washington, D.C. 1983. p. 10.

[29] Ibid. p. 11.

[30] Cherlin, p. 29.

In general, when births out of wedlock are discussed, people focus on teenagers; the problem, however, is not limited to this age group. Part of the attention to teenagers reflects concern about the long-term negative consequences for teenagers. The health effects are serious, most directly reflected in higher infant and maternal mortality among teenagers. There are long-term social and economic consequences as well, ranging from reduced educational attainment to higher likelihood of living in poverty. A high proportion of the births to teenagers are unwanted, particularly when the conception was premarital.[31]

As Table 3-16 shows, however, the birth rate to unmarried women reaches its peak for women in their twenties, not in their teens, and this has been the case since the mid-1940s. This time series shows that the rate of births out of wedlock has been increasing steadily for teenagers since 1940. Among women in their twenties, the rate increased through the mid-1960s, but then began a decade-long decline. Since the mid-1970s, though, the birth rate to unmarried women in their twenties has been increasing. The rate of births out of wedlock is lower for women in their thirties, although this figure also exceeded the rate among teenagers during the 1960s.

TABLE 3-16.—BIRTH RATES TO UNMARRIED WOMEN BY AGE, 1940–80

	Unmarried birth rate [1] by age					
	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 to 44
1940	7.4	9.5	7.2	5.1	3.4	1.2
1945	9.5	15.3	12.1	7.1	4.1	1.6
1950	12.6	21.3	19.9	13.3	7.2	2.0
1955	15.1	33.5	33.5	22.0	10.5	2.7
1960	15.3	39.7	45.1	27.8	14.1	3.6
1965	16.7	39.9	49.3	37.5	17.4	4.5
1970	22.4	38.4	37.0	27.1	13.6	3.5
1975	24.2	31.6	28.0	18.1	9.1	2.6
1980	27.6	40.9	34.0	21.1	6.5	

[1] Births out of wedlock per 1,000 unmarried women in each age group.

Source: 1940–1975: Campbell, Arthur A. Trends in Teenage Childbearing in the United States. In Adolescent Pregnancy and Childbearing: Findings from Research. Catherine S. Chilman, ed. U.S. Department of HHS. NIH Publication No. 81-2077. December 1980. 1980: National Center for Health Statistics. Birth and Fertility Rates for States, United States, 1980. Series 21, No. 42. September 1984.

Although unmarried women in their twenties have higher rates of births out of wedlock, there is a smaller proportion of unmarried women in their twenties than in their teens. As a result, of all births out of wedlock, a higher percentage occurs to teenagers, since such a high proportion of them are unmarried. For example in 1979, 42.4 percent of all births out of wedlock occurred to women aged 15 to 19 (up slightly from 39.2 percent in 1963).[32] Women in their twenties (a ten-year age group) had 48.6 percent of all births out of wedlock in 1979 compared to 45.5 percent in 1963. Thus, in spite of their lower rate, teenage women have more births out of wedlock than any other five-year age group.

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[31] Zelnick, Melvin and John F. Kantner. First Pregnancies to Women Aged 15-19: 1976 and 1971. In Teenage Sexuality Pregnancy, and Childbearing. Frank F. Furstenberg, Jr., Richard Lincoln, and Jane Manken, eds. Philadelphia, University of Pennsylvania Press, 1981. p. 99-102.

While the rates of births out of wedlock have been increasing in recent years, the proportion of all births that are out wedlock has also been increasing. From 1940 to 1960, that proportion held fairly constant, at 4 to 5 percent. By 1980, however, fully 18 percent of all births were out of wedlock, a near quadrupling of the share.[33] That share varies by race, with 48 percent of nonwhite and 11 percent of white births out of wedlock in 1980. That increase results from four important, concurrent demographic trends: (1) During the 1970s and 1980s the large baby boom cohort has been passing through the age groups most at risk (i.e., with the highest rates) of births out of wedlock. Even if birth rates in and out of wedlock held exactly constant for all age groups, the share of all births that were out of wedlock would increase because of the size of this cohort. (2) There has been an increasing pattern of delayed marriage, increasing the relative size of the group of women exposed to rates of births out of wedlock. (3) The rate of births out of wedlock has been increasing for teenagers and women in their twenties. (4) Marital fertility rates have been declining to all age groups, reducing the number of marital births.

Any discussion of births out of wedlock is incomplete without reference to the role played by abortion in reducing the number of such births. A very high proportion of all premarital conceptions are terminated by abortions. In 1980, 30 percent of all conceptions ended in abortions, and 79.4 percent of all abortions were to unmarried woman.[34] Whereas 9.8 percent of marital pregnancies were terminated by abortion, 64.9 percent of nonmarital pregnancies so terminated.[35] The highest proportion of abortions occur to young women; fully two-thirds are to women under age 25 and about half of them were to teenagers. The abortion rate, which rose through the 1970s, stabilized in the early 1980s.[36]

LIVING ARRANGEMENTS

Researchers have not investigated issues of changing living arrangements to the same extent as marital patterns and premarital births. A major stumbling block to addressing this issue is the lack of appropriate data over an extended period of time. In fact, the Bureau of the Census has only very recently begun collecting sufficient information on their major social surveys to correctly identify female family heads (with children) who are living in households headed by a relative (usually a parent). Technically, such a grouping is called a "subfamily."

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[32] Based on data from National Center for Health Statistics. Vital Statistics of the United States: 1963 and 1979. Natality. U.S. Department of Health and Human Services. Washington, D.C.

[33] Thornton and Freedman, p. 21.

[34] Henshaw, Stanley K. and Kevin O'Reilly. Characteristics of Abortion Patients in the United States, 1979 and 1980. Family Planning Perspectives. Vol. 13, January/February 1983. p. 6–8.

[35] Ibid.

[36] Henshaw, Stanley, K. Jacqueline Darrock Forrest, and Ellen Blaine. Abortion Services in the United States, 1981 and 1982. Family Planning Perspectives. Vol. 16, May/June 1984. p. 120.

Nevertheless, even without knowing how many female-headed subfamilies there have been at different times, some inferences may be drawn about changing patterns of living arrangements of women who are not currently married and living with their husbands. There are indications that, at least in recent years, an increasing proportion of such women are living on their own rather than as members of other households, or that the "headship" rate among women is increasing. An examination of different groups of people according to their age and sex shows that between 1970 and 1980, the headship rate among never-married women of all age groups increased substantially and to a greater extent than among men of the same categories. Among never-married women, the headship rate (the proportion of never-married women who head their own households) increased more than 20 percentage points for women aged 35 to 44, 18 points for women 25 to 34 and 6 points for women 15 to 24.[37] The increase was substantially greater among never-married women than among those who were widowed or divorced, although the headship rates among these groups were already very high. These increasing headship rates provide an indication of changing patterns of living arrangements. As more unmarried women are choosing to live on their own, the assumption is that they are generally more independent in terms of their own financial support.

Similarly, the data presented above in Chart 3.1 and Tables 3-3 and 3-4 demonstrate that the increasing tendency for women with children to head their own families rather than to live as subfamilies accounted for 7 to 10 percent of the growth of female headed families from 1960 through 1980. This additional evidence supports an assumption that the increasing tendency for unmarried women to head their own households is not entirely focused among women without children.

RELATIONSHIPS BETWEEN DEMOGRAPHIC TRENDS AND CHILDREN'S EXPERIENCES

A summary of the current effects of high rates of divorce and remarriage on the Nation's children can be gleaned from several analyses. In addition to their finding, cited above, that over one-third of all children will experience some marital disruption, Bumpass and Rindfuss note that there are large differences among population groups regarding these experiences. Black children are far more likely to ever experience a marital disruption; if prevailing rates of divorce and widowhood of the mid-1970s continue, currently nearly 60 percent of black children will live in a disrupted family, compared to about a third of white children. The black children also will spend a longer time in single-parent families than will white children. Five years after divorce or widowhood, the mothers of 80 percent of the black children who are still under 18 still will not have remarried; for whites, the comparable figure is only one third.[38]

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[37] Sweet, James A. Components of Change in the Number of Households: 1970-1980. Demography, vol. 21, May 1984. p. 134.

These figures include only children of women who have ever been married. If women whose children were born out of wedlock were included, a substantially higher proportion of all black children would ever live in female-headed families. But, as Bumpass and Rindfuss point out, marriage rates for women whose children are born out of wedlock are higher than are remarriage rates for divorced women with children, so the duration of living in a disrupted family would be somewhat shorter for both blacks and whites.[39] For example, within two years after a first birth out of wedlock, more than 50 percent of women have married. But it is only after five years that nearly the same proportion of divorced or separated women have remarried.[40]

Another demographic factor related to marital dissolution and remarriage is the age at which a woman has her first birth and whether that birth was premaritally conceived. Women whose first birth occurred before she reached age 20 are more than three times as likely to separate within the first five years of marriage than are women whose first birth occurred after the age of 20. Women who bore their first child before age 18 are particularly vulnerable, with a probability that one in five will separate within the first five years of marriage, compared to fewer than one in twenty among women bearing a first child after age 20. If that birth was premaritally conceived, the likelihood of separation at all ages is even higher, and if a woman had the birth out of wedlock and subsequently married, the probabilities of a separation in that marriage are much higher.[41] In addition, marital disruptions to teenage mothers are more likely to occur when the children are younger than is the case among women who had their first births at later ages.[42] These findings indicate that children of teenage parents are much more likely to spend time in female-headed families than are children of older mothers, regardless of whether they were conceived or born out of wedlock.

Finally, the likelihood of remarriage also is affected by the age at which a woman first gave birth. If she gave birth before age 20, a woman is much less likely to remarry after a separation than if she had her first child later, again regardless of whether the birth was premaritally conceived. The differences according to age of first birth with respect to remarriage, however, are not so large as the differences according to race, for black women are much less likely to remarry than are white women. McCarthy and Menken find that the effects of timing of first birth continue even into the dissolution of second marriages; nearly a fourth of all remarried women who gave birth before 20 are likely to separate within five years of their second marriage, compared to only 16 percent among the older mothers.[43]

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[38] Bumpass and Rindfuss, p. 55–61.

[39] Ibid., p. 62.

[40] McCarthy, James and Jane Menken. Marriage, Remarriage, Marital Disruption and Age at First Birth. Family Planning Perspectives. 11:1 January/February 1979. p. 23.

[41] McCarthy and Menken, p. 27.

[42] Baldwin, Wendy and Virginia's S. Cain. The Children of Teenage Births. Family Planning Perspectives. 12:1 January/February 1980 p. 38.

[43] McCarthy and Menken, p. 28.

4. Possible Effects of Policies on Family Formation and Dissolution

In recent years, analysts and policymakers alike have expressed concern that Government policies may be encouraging the increase in divorces and births out of wedlock, thereby unintentionally increasing the rate of poverty among female-headed families and children. A number of studies have addressed the issue of whether current welfare programs encourage the formation of female-headed families, focussing particularly on the Aid to Families with Dependent Children (AFDC) program and the Food Stamp Program. The findings are not consistent; major alternative perspectives are reviewed here.

The lower rate of legitimation of premarital conceptions seems to show that more women (and their families) are willing to have births out of wedlock. Some analysts have argued that AFDC benefits and other welfare programs have encouraged young women to keep their babies and not to get married because there are certain means of support under these circumstances. For example, Murray argues that "the old-fashioned solution of getting married and living off the combined earned income has become markedly less appealing."[44] The implication is not that young women have children in order to qualify for programs, but rather that, faced with an unplanned pregnancy, there are fewer incentives today than formerly for the young women to marry or give their babies up for adoption. Murray asserts that decisions about marriage and work are directly affected by changing economic realities that make it possible for the young woman to live a better life if she keeps the baby and relies on public assistance.

Murray analyzes a hypothetical situation of income obtainable from work and welfare to a young couple who have conceived a child out of wedlock. He examines their income perspectives in both 1960 and 1970, and addresses the logic both of their marrying and of their working given the programs existing at those times. He concludes that changes made to welfare programs in the 1960s made it irrational for a young couple to marry, although they might want to live together unmarried. Murray contends that program changes in this decade must, therefore, have increased the rate of births out of wedlock to the extent that people's behaviors were consistent with this logic.[45] (By this logic, the general decline in real benefits during the 1970s should have decreased the rate of births out of wedlock but this did not happen.)

In another example, Fuchs cites a study in a single county (Ventura County, California) that found that among teenage women who became pregnant, those who were eligible for public assistance were much more likely to deliver out of wedlock than to select other alternatives.[46]

In another analysis of the relationship between changes in welfare over time and trends in births out of wedlock, Becker views the increases in aggregate welfare expenditures and increasing proportions of births occurring out of wedlock and concludes, "The expansion of welfare, along with the general decline in the gain from marriage, explains the sizable growth in the ratio of illegitimate to legitimate birth rates . . ."[47]

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[44] Murray, Charles. The War on Poverty, 1965-1980. The Wilson Quarterly. Autumn, 1984. p. 128.

[45] Murray, Charles A. Losing Ground: American Social Policy 1950-1980. New York, Basic Books, Inc., 1984. p. 154-167.

[46] Fuchs, Victor. How We Live. Cambridge, Mass., Havard University Press. p. 106.

Other studies analyze the relationships between payment of welfare in different states and family structure under varcus conditions. Moore and Caldwell, for example, analyze the teenage pregnancy and childbearing in relation to the levels of AFDC benefits available in different states. They find first that States with high benefits or high levels of AFDC acceptance rates do not show a significantly higher incidence of premarital pregnancy. They then find that there is "no statistically significant evidence linking welfare availability with the probability of carrying an out of wedlock pregnancy to an out of wedlock birth."[48] They conclude that neither the level of AFDC benefits nor the program participation rate serves as incentives to out of wedlock childbearing.

In their analysis of 1970 Census data for low income urban areas, Ross and Sawhill find that welfare benefit levels appear to modestly increase the proportion of nonwhite women heading families with children. They find no such effect for white women. They suggest that the two most likely behavioral causes of this effect among nonwhites are first, an increased likelihood that unmarried women with children will set up their own household rather than live with a parent and second, a reduced likelihood that women in locations with higher benefit levels will marry (if unmarried) or remarry (if divorced or separated).[49]

Vining questions the logic of both types of analysis presented thus far. He notes that the inferences of time series analyses similar to those of Murray and Becker are not supported by data on State level births out of wedlock. He contends that the long-term increases both in the ratio of births out of wedlock to marital births as well as in aggregate welfare payments do not demonstrate a linkage between the two, for other factors could be affecting either or both trends independently. Vining also questions the Moore and Caldwell cross-sectional analysis, for he notes that even though differences in current rates of birth to unmarried women are not related to the level of payments, changes in the rates could still be related to changes in the levels of benefit payments over time. For example, the incidence of births out of wedlock could be increasing over time along with the levels of welfare payments. This could occur in the absence of any relationship between the two variables measured at a single point in time. He concludes that, "The subject, in short, remains to the same degree marooned on this incompatibility of the cross-section and the time series . . ."[50] Such studies, he asserts, can establish neither the linkage nor the absence thereof between births out of wedlock and welfare.

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[47] Becker, Gary S. A Treatise on the Family. Cambridge, Mass., Harvard University Press, 1981. p. 252.

[48] Moore, Kristin and Steven Caldwell. The Effect of Government Policies on Out-of-Wedlock Sex and Pregnancy. Family Planning Perspectives. Vol. 9:1, July/August 1977. p. 166-167.

[49] Ross, Heather L. and Isabel Sawhill. Time of Transition: The Growth of Families Headed by Women. Washington, D.C, The Urban Institute, 1975. p. 114-120.

[50] Vining, Daniel R. Illegitimacy and Public Policy. Population and Development Review. Vol. 9. March 1983. p. 108.

Taking another approach to attempt to find if there is a relationship between welfare and family structure, numerous studies of the income maintenance experiments have addressed the issue of whether the alternative program rules tested in these programs affected the rate of marital dissolution. Several of these studies found that guaranteed income maintenance payments for intact families increased the likelihood of marital dissolution.

There are, however, two fundamental problems with these studies for the purposes of this analysis. First, they cannot identify the effects the existing welfare programs have had on family structure, for they were testing the effects of a different system. As Wilson and Neckerman state, "The findings are not generalizable to welfare; significant results were found precisely because of differences between the 'experimental' (income maintenance) and 'control' (welfare) groups. The experiments suggest the consequences of replacing the current welfare system with an income maintenance program, but cannot demonstrate what the effects of the current welfare system have been." [51]

Second, these experiments were conceived and identified to the participants as limited to a specified time period; participants knew that in a period of years, the benefits of the programs would no longer be available. The route to a female headed family involves a relatively permanent change in status, whether it is by bearing a child out of wedlock or by separating or divorcing. The logic of basing behavior with such long term results on short term programs is questionable. Ross and Sawhill identify this problem with respect to births out of wedlock,[52] and the same issue must be raised for marital dissolution.

A more detailed analysis by Ellwood and Bane addresses some of the issues raised by Vining and others. In examining the relationship of welfare benefits to the differences in family structure they find that, "Differences in welfare do not appear to be the primary cause of variation in family structure across states, or over time. Largely unmeasurable differences in culture or attitudes or expectations seem to account for a large portion of differences in birth rates to unmarried women and in divorce and separation patterns among families with children." [53]

The Ellwood and Bane analysis is the most complete to date of the effects of the existing welfare system on family structure. Their conclusions are based on three separate analytic techniques: (1) "over time comparisons" of state differences in changing family structure and benefit payments, (2) "eligible vs. ineligible comparisons" both of divorce rates for women with and without children and of birth rates of married and unmarried women, and (3) "Likely vs. unlikely recipient comparisons" of divorce and unmarried birth rates of women who are more likely recipients of welfare to the rates of women who are less likely recipients. They note that their findings were highly consistent regardless of the methodologies used.

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[51] Wilson and Neckerman, p. 29.

[52] Ross and Sawhill, p. 109.

[53] Ellwood, David T. and Mary Jo Bane. The Impact of AFDC on Family Structure and Living Arrangements. Harvard University, March 1984. p. 1.

In addition to examining family structure in general, they analyze the behavioral differences that generate female-headed families. First, although they do not find a relationship between the levels or changes in the rates of AFDC benefits and the variation in family structure across states, they do find AFDC to have a dramatic effect on the living arrangements of young single mothers.[54] In states with low benefits, unmarried mothers are much more likely to live with a parent than are women in high benefit states. Second, they find that benefit levels modestly influence divorce and separation, primarily among young married mothers. At older ages, the effect is small. Benefit levels were not found to influence the child-bearing decisions of unmarried women at any ages.

In summary, Ellwood and Bane state that, ". . . the more significant the family structure or living arrangement change, the less influence AFDC seems to have. Living arrangements of young mothers are most sensitive to AFDC benefits since the only question facing the young mother is whether or not she can afford to live independently. Divorce or separation involves more than a decision to live independently; it involves a more complicated severing of emotional and most probably financial ties that husband and wife have to each other. Thus AFDC quite expectedly has less impact. It has its largest effect on women who married young who often may have the weakest emotional and financial ties. Childbirth is the most extreme event. It involves a vastly greater change in the options and opportunities a woman faces and a high level of emotional commitment. It seems quite plausible that such decisions might not be influenced greatly by AFDC benefits, particularly since young mothers typically live in a parent's home." [55]

In searching for possible causes of the dramatic increase in black female-headed families, Wilson and Neckerman identify another factor as the "underlying cause" of the dramatic rise in black families headed by women: the deteriorating employment status of black men, particularly young men." [56] They maintain that the trends of increasing joblessness among black men, combined with high black male mortality and incarceration rates, have caused a long-term decline in the proportion of black men in stable economic conditions and with the ability to support a family. They call for renewed scholarly and public policy attention to the connection between the "disintegration" of poor black families and black male prospects for stable employment.

In the case of whites, Wilson and Neckerman find it likely that the chief cause of the rise of separation and divorce rates is the increased economic independence of white women,[57] which makes the dissolution of a bad marriage a more realistic alternative than in the past.

5. Conclusions

The analysis in this chapter indicates that changes in the demographic composition of the nation's population have affected the number of children in poverty as well as the rate of poverty among children. However, these changes have not been simple or isolated from other factors related to changing levels of poverty. One point that must be made about such demographic analysis is that while it can demonstrate the relationship between changing marital patterns, fertility behavior, and poverty rates, it does not demonstrate why different groups of the population are subject to different rates of poverty. Demographic analysis represents a first level of inquiry in better understanding changing patterns of poverty among children. Further analysis of the social and economic life experiences of people in different groups is required to explain how the demographic factors operate the way they do.

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[54] Ellwood and Bane, p. 3.

[55] Ibid., pp. 6-7.

[56] Wilson and Neckerman, p. 34-35.

[57] Wilson and Neckerman, p. 37.

Over the last 25 years the proportion of female-headed families in the population has increased substantially. Since children in these families are considerably more prone to poverty than are children in male-present families, this change in family composition has been associated with an increase in poverty among children. However, this analysis has shown that while family composition matters, it also interacts with other factors and thus its effect is not simple or predictable. Family composition interacts with race, for there have been larger increases in recent years in the poverty rates among black children in female-headed families than among their white counterparts. In addition, the rates of poverty among black children remain higher than among white children regardless of what type families they live in.

Family composition also interacts with the number of children in a family, for while the average size of all types of families has declined in recent years, the decline has been greater in male-present families than in female-headed families. The incidence of poverty is much higher among larger families, and these smaller families contribute fewer children to the overall count of children in poverty. Since the prevalence of larger families has not declined as rapidly among female-headed families and these families are subject to higher poverty rates, this interaction has operated to hold poverty rates higher.

Finally, the relative changes in the poverty rates have been different for children in male-present and female-headed families. Poverty rates among children in female-headed families have been more persistent and have not shown as dramatic long-term shifts as among other children. Thus, changes in the number of all children in poverty have been more a reflection of larger relative changes in rates among children in male-present families than among those in female-headed families.

In sum, the combined effect of these varying cross-currents of demographic influence appears to have been to increase the poverty rate above what it would have been in the absence of changing demographic behavior. Although the rate of change has been most rapid over the past decade, changes in family composition do not appear to have been a transient product of current trends. The changes have been deeply embedded in historical patterns of changing marriage, divorce, and childbearing behavior.

There are two perspectives that can be focussed on with respect to the demographic aspects of this issue. First, with more than 80 percent of all children still in male-present families, any changes in their poverty rates will affect a large number of children. Second, with more than 50 percent of all poor children in female-headed families with their very high poverty rates, any changes in their poverty situation will also affect a large number of children.

Finally, this chapter examined the effects of Federal policies on changing family composition to determine if public policy inadvertently was increasing the share of female-headed families in the population. Analyses of this issue have not reached a consensus, but the most thorough analysis to date indicates large effects on the living arrangements of mothers who are currently not married. Policies appear to increase the proportion of such women who live on their own rather than living with other relatives, but, according to this study, Federal programs do not appear to have much effect on rates of divorce or birth rates to unmarried women.

CHAPTER IV. EARNINGS AND POOR CHILDREN*

1. Introduction

Most children need a working parent if they are to avoid or escape poverty, but many parents have sub-poverty earnings.

As noted at the outset of this report, more than one-fourth of children would have been classified as "poor" in 1983 if their families had received no money other than earnings and other market income. Their market income poverty rate was 25.8 percent. Government cash transfer payments, principally social security and Aid to Families with Dependent Children, reduced this rate by 3.6 percentage points to the official poverty level of 22.2.

The incidence of market income poverty among children climbed steadily from 1978 to 1983,[1] making it more difficult and more expensive for Government to reduce poverty through cash transfers.

To better understand the persistence of market income poverty, this chapter studies the earning patterns of families with children in 1982–1983 by race, educational attainment, family type, and age. Chapter V then explores the relationship of unemployment and income distribution to poverty among children. Chapter VI examines Government transfer payments and childhood poverty.

This chapter identifies certain families who are much more likely than others to have insufficient earnings: for example, mother-child families, especially those of never-married mothers, and families whose head did not complete high school. These families generally work fewer hours during the year than others. However, the chapter shows that even full-time year-round work by a parent does not guarantee a child against poverty. Indeed, in 1983 an estimated 2.5 million children were poor although a parent worked more than 2,000 hours each year. These children of the full-time working poor represented more than one-sixth of all poor children in 1983. To overcome their poverty would require a second earner, higher wages for the first earner, or cash supplements to the first earner's full-time earnings. For some, non-cash benefits such as food stamps and Medicaid relieved problems caused by too little money.

Chapters II and III provide some clues in understanding poverty and its correlates. They show that female-headed families and black families are much more likely to be poor than male-present families and white families. This chapter shows that families' annual earnings are related to many factors, including educational attainment, age, sex, and race of the parent; and marital status of the mother.

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* Thomas Gabe and Bob Lyke co-authored this chapter. Mr. Gabe compiled the tables and prepared the computer graphs.

[1] See Table 6-5 (Chapter VI) for market income poverty rates of children, 1972–1983.

Principal findings, all pertaining to 1982–1983, include:

—Higher earnings are directly related to educational attainment. Married fathers who completed high school earned almost 50 percent more per year than those who did not. Those who completed some college earned almost half again as much as those who did not go beyond high school. For mothers, those who received a high school diploma earned almost 90 percent more than those who did not; those who undertook some college study increased earnings by more than one-half again.

—Earnings are associated with sex. Hourly earnings of married fathers with the same level of educational attainment generally were two-thirds higher than those of mothers.

—Earnings of fathers are clearly associated with race. Black married fathers earned about 30 percent less per year than white married fathers, at each level of educational attainment. The black fathers in 1982–1983 worked 18 percent fewer hours per year, on average, and their average hourly earnings were lower than those of white married fathers.

—Black mothers raising children alone earned about 20–30 percent less per year than white single mothers with the same level of schooling. However, black mothers in married-couple familes earned about 40 percent *more* per year, on average, than such white mothers, and for each level of schooling the black wives had higher earnings. Black wives worked about one-third more hours during the year than white wives and earned almost as much per hour.

—Fathers' earnings alone were sufficient to keep 79 percent of the children in white married-couple families out of poverty and 58 percent of those in comparable black families out of poverty. Black children were more likely to be poor on the basis of the combined earnings of their mother and father than white children on the basis of only their father's earnings.

—Full-time year-round jobs of single mothers failed to over-come poverty in 1982–83 for 12 percent of their children. The poverty rate for children of married couples whose fathers worked full-time all year averaged 6 percent.

—Of all married men with children, most worked more than 2,000 hours a year: 72 percent of whites and 58 percent of blacks. Single mothers were less likely to work full-time: 35 percent of whites and 26 percent of blacks did so.

—Earnings of family members other than the family head were a significant source of income for female-headed families with children. These earnings accounted for 8 percent of total income of such families who were non-poor and three percent for those who were poor.

—Women with less education are likely to have children at a younger age, and to have more children, than those who remain in school longer. All of these factors are associated with relatively low earnings.

This report does not assess the relative importance of various factors associated with sub-poverty earnings of families. Multivariate methods, such as multiple regression analysis, would be required to determine how various factors are interrelated to earnings and poverty, and their relative significance. The specification of multivariate models depends upon the theoretical context and the specific hypothesis to be tested. Although there is agreement that the variables, age, race, education, and sex, are related to earnings and poverty, consensus is lacking as to how these and other variables are interrelated.[2] Further, this chapter's data on earnings by age deal only with individuals of different ages in the same year and do not tell about the experiences of persons as they grow older. For the latter, longitudinal data would be required.

The analysis in this section does not, and can not, reflect possible earnings obtained in the so-called "underground economy." Such earnings—cash payments and goods or services received for services performed—are not reported for income tax or social security purposes.

2. Poverty Rates of Children: Relationship to Parent's Characteristics[3]

RELATIONSHIPS OF PARENT'S AGE, EDUCATION, AND RACE BY POVERTY

A parent's age, educational attainment, and race relate to annual earnings available for a child's support. Further, married-couple and female-headed families have wide differences in annual earnings. When these factors are combined, what is the impact on the poverty status of children?

Chart 4.1 sums up the situation. As one reads from left to right on the chart, from mother-child to married couple families, and within them, from young to older ages of the family head, poverty rates decrease. Similarly, poverty rates decline as one moves from top to bottom, from those who failed to complete high school to those who succeeded, and within these groups from black to white. The chart shows that children in female-headed families generally have the highest poverty rates. If their mothers are under 30 years old and did not complete high school, more than 9 out of 10 children are poor, black or white. If their mothers did complete high school, the rates drop for both blacks and whites, but relatively more for whites than blacks. The lowest poverty rates for children in mother-headed families are those at the bottom of the second column: those in which mothers are both over 30 years old and high school graduates. However, even in these families nearly 3 in 10 white children and more than 5 in 10 black children are poor. Completing high school does less to reduce poverty rates for an older black mother than for an older white one.

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[2] See Gian Singh Sahota. Theories of Personal Income Distribution: A Survey. Journal of Economic Literature, March 1978, pp. 1-44. Vol. XVI. No. 1.

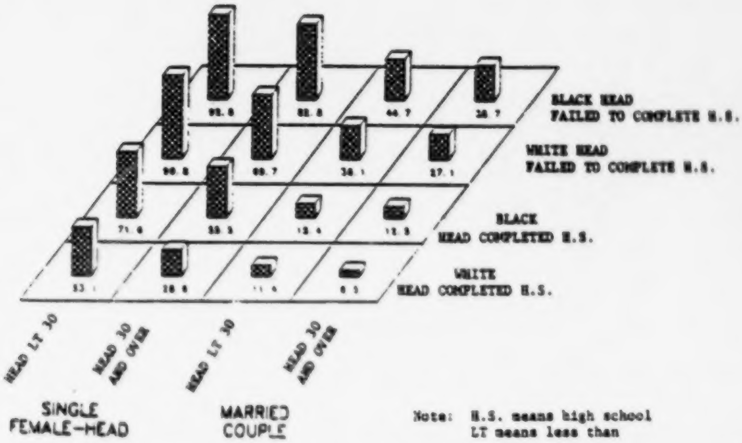
[3] Estimated poverty rates and other data presented in this chapter are based on pooled data from the Current Population Survey (CPS) of the Census Bureau for March 1983 and March 1984 (reflecting 1982 and 1983 income). The data were pooled to increase sample size and thus allow more valid comparisons among different population groups. To assure reliability of data, this chapter presents only estimates based on at least 75,000 weighted cases (in accordance with Census Bureau guidelines). The sample universe represents 84 percent of all related children and 82 percent of all poor children.

In order to identify the parents of children in the CPS the chapter examined only families with their own children (never married sons and daughters and adopted children and stepchildren under 18 years old). The sample represents about 90 percent of all related children living in married-couple families and 69 percent of all related children in female-headed families (89 percent of all related poor children in female-headed families).

The estimates are on an annual basis, but they reflect a two-year average and hence may differ from those elsewhere in the report. Excluded are related sub-families (for example, a mother and child living with grandparents) and primary families having a related subfamily in the same household (for example, grandparents with a daughter and grandchild). Also excluded are related children not the family's "own", such as nieces, nephews, and grandchildren.

CHART 4.1

POVERTY RATES AMONG CHILDREN: 1982 – 1983
BY FAMILY TYPE AND HEAD'S AGE, RACE AND EDUCATION
(PERCENTS)



Note: H.S. means high school
LT means less than

Children in some married-couple families have higher poverty rates than some in female-headed families. The chart shows that children of young white fathers who failed to finish high school and children of all married black fathers without high school diplomas have higher poverty rates than those of white single mothers who completed high school and are least 30 years old.

Diagonally opposite from the poorest group is the least poor one: children of white married couples whose father is at least 30 years old and a high school graduate. Their poverty rate is only 6.5 percent.

As shown in Table 4-1, the relationship of college study by a parent to a child's likelihood of poverty varies. In mother-child families, the 1982-1983 poverty rate for children whose mothers had some college work was 45 percent lower for whites (but only 30 percent lower for blacks) than for children whose mothers stopped schooling after completing high school. In contrast, the poverty rate of children whose father undertook college study was 52 percent lower for whites (but 61 percent lower for blacks), than for children whose fathers did not go on to college.

At each level of the parent's schooling, poverty rates of black children exceeded those of whites: all married-couple families, by 85 percent; single-female-headed families, by 51 percent. For female-headed families this relative racial gap widened with education. In female-headed families whose mother completed some college, nearly one out of every two children was poor. Their child poverty rate (47.3 percent) was more than double that of corresponding white children (22.7 percent). For children of single mothers who failed to complete high school, black poverty rates were only 13 percent above those of whites.

TABLE 4-1.—POVERTY RATES AMONG CHILDREN IN MARRIED-COUPLE AND SINGLE FEMALE-HEADED FAMILIES BY RACE AND PARENT'S HIGHEST GRADE OF EDUCATION COMPLETED: 1982–83

	Total	White	Black
Married-couple families (total)	12.4	11.3	20.9
Father's education only:			
Failed to complete high school [1]	31.1	29.0	39.6
Completed high school	7.8	7.3	13.1
High school diploma only	11.0	10.1	17.5
Completed some college [2]	5.0	4.8	6.9
Father and mother's education:			
Neither completed high school [1]	39.1	36.8	44.9
Only mother completed high school	20.4	18.6	32.8
Only father completed high school	20.2	18.6	29.7
Both completed high school	6.6	6.2	11.1
Single female-headed families (total)	55.8	47.4	71.5
Mother's education:			
Failed to complete high school [1]	80.6	76.8	86.8
Completed high school	43.1	34.4	61.6
High school diploma only	50.3	41.0	67.6
Completed some college [2]	29.5	22.7	47.3

[1] Includes persons who did not start high school.

[2] Includes persons who were graduated from college.

Note.—Table prepared by CRS using data from the combined March 1984 and March 1983 Current Population Survey. Data are for "own related children" in primary and secondary families only. Poverty rates in this table were calculated on the basis of the Census Bureau definition, applied to two years' data.

IMPACT OF FULL-TIME WORKING PARENTS

Poverty rates of children with a full-time working parent (one who worked more than 2,000 hours a year) averaged 6.1 percent in married-couple families, where the father was the primary worker, but 11.8 percent in female-headed families, where the mother was the worker (Table 4-2). In part, poverty rates were lower for married-couple families whose head worked full-time than for single mothers with a full-time job because some of the two-parent families had a second earner, the other parent. In married-couple families where the full-time job of the father was not supplemented by part-time work of the mother, the child poverty rate was 9.9 percent. For children of single black mothers who worked full-time, the incidence of poverty exceeded one out of five and was more than double that for whites (20.8 percent vs. 8.3 percent). Married-couple families in which both parents worked full-time nevertheless experienced some poverty; 2.6 percent were poor.

TABLE 4–2.—POVERTY RATES OF CHILDREN WITH A PARENT WHO WORKED MORE THAN 2,000 HOURS A YEAR, 1982–83

	Total	White	Black
Married-couple families: Father worked full-time [1]	6.1	5.8	9.4
Female-headed families: Mother worked full-time	11.8	8.3	20.8

[1] In some of these families, the second parent also worked: If 1–1000 hours a year the child poverty rate was 5.4 percent; if 1001–2000 hours, 3.2 percent; if more than 2,000 hours, 2.6 percent. If the second parent did not work, the child poverty rate was 9.9 percent.

Note.—Table prepared by CRS using data from the combined March 1984 and March 1983 Current Population Surveys. Data are for "own related children" in primary and secondary families only. Poverty rates were calculated on basis of the Census Bureau definition, applied to two years' data.

In 1982–1983, 32.5 percent of all poor children in married-couple families, and 5.5 percent of all poor children in female-headed families, had a parent who worked full-time year round. This means that an estimated 2.5 million children were poor (more than 2.1 million in married-couple families) despite a parent's earnings from more than 2,000 hours of work.

The share of poor married-couple families with at least one full-time working parent was 34.7 percent for whites, 22.7 percent for blacks. The share of poor mother-child families with a full-time working mother was 5.1 percent for whites, 6 percent for blacks.

In a sizable share of all married-couple families with children, both parents worked full-time in 1982–83: 16 percent of whites, 22 percent of blacks.

IMPACT OF NO WORKING PARENT

Poverty rates of married-couple families with zero earnings of either parent averaged 59 percent (54 percent for whites, 71 percent for blacks). For female-headed families with no reported earnings of the mother, the poverty rate was 91 percent (86 percent for whites, 96 percent for blacks).

Of all married-couple families with children, three percent had zero reported earnings (3 percent for whites, 6 percent for blacks). Of all female-headed families with children, 33 percent reported zero parental earnings (28 percent for whites, 43 percent for blacks).

3. Share of Income From Work

How many children would be poor if families had no other income other than earnings, and those earnings were held constant? How much of the income of families with children comes from earnings? These questions can be answered by looking at the contribution earnings make to total family income and comparing earned income to the official poverty thresholds. As was described in Chapter II, income considered in determining whether a household is poor consists of both market income and government cash transfers. Market income includes earnings of the father and the mother, earnings of other members of the household, and other private sources of income from dividends and interest, annuities and pensions, and interfamily transfers such as alimony and child support. Government cash transfers include social insurance and cash welfare benefits.

Children whose families' earnings are too low to overcome poverty can receive government transfer aid only under certain circumstances (described in more detail in Chapter VI.). For social security benefits, the child must have a parent who earned social security coverage through work before retiring, becoming disabled, or dying, but he need not be poor. For the main family welfare program of cash aid, Aid to Families with Dependent Children (AFDC), the child must be needy under State standards and generally must live in a fatherless family, although benefits are allowed in 25 jurisdictions (including the District of Columbia and Guam) to two-parent families if the second parent is incapacitated or unemployed (defined to include work of less than 100 hours a month). Intact families with full-time earnings are ineligible, regardless of how low their earnings.

POVERTY RATES OF CHILDREN: IMPACT OF EARNINGS

EARNINGS OF MOTHERS RAISING CHILDREN ALONE

More than two-thirds of all the children in female-headed families would be poor if only the earnings of the mother were counted (Table 4–3). If cash income from all other sources also were counted, 56 percent of the children in these families would be considered poor. This table shows that black children in female-headed families are about one-fourth more likely to be poor on the basis of their mother's earnings than are white children. It further shows that government cash transfers reduce the poverty rate for these black children proportionately less than for white children (5 percent compared to 12 percent).

Among mothers raising children alone, divorced or separated mothers come closest as a group to overcoming poverty through earnings; at the other extreme are never-married mothers. Poverty rates based on mothers' earnings only are 63 percent and 82 percent respectively for those two groups. Government cash transfers cut poverty rates among children of widowed mothers by 44 percent, compared to reduction of 4 percent for children of never-married mothers, and 6 percent for children of divorced or separated mothers.

TABLE 4-3.—POVERTY RATES AMONG CHILDREN IN SINGLE FEMALE-HEADED FAMILIES BY INCOME SOURCE AND RACE: 1982-83

Income source	Total			Never married			Divorced separated			Widowed		
	Total	White	Black	Total	White	Black	Total	White	Black	Total	White	Black
Mother's earnings only	68.0	62.8	77.7	82.1	78.4	83.9	63.0	59.3	73.1	78.0	76.6	80.1
Plus all other private sources	61.3	53.7	75.4	80.5	75.5	82.9	55.6	50.2	70.2	65.7	62.0	75.5
Plus government cash transfers "official poverty rate"	55.8	47.4	71.5	77.5	72.3	80.1	52.2	47.8	67.0	36.5	28.0	58.7

Note.—Table prepared by CRS using data from the combined March 1984 and March 1983 Current Population Survey.

Data are for "own children" in primary and secondary families only. The "official poverty rates" in this table were calculated on the basis of the Census Bureau definition, applied to two years' data. The poverty rates in the first two rows would be different if earnings were counted after other private sources rather than before. Earnings are listed first because families are expected to rely on private sources of income before resorting to cash transfers.

EARNINGS OF PARENTS IN MARRIED-COUPLE FAMILIES

Fathers' earnings alone would leave almost one-fourth of the children in married-couple families poor: 42 percent of children in black families, 23 percent in white families (Table 4-4).[4] If the mother's earnings also were counted, the poverty rate for black children would drop by 36 percent, that of white children by 29 percent.

As in the case of female-headed families, government cash transfers reduce the poverty rate for black children in married-couple families proportionately less than for white children (14 percent versus 18 percent).

TABLE 4-4.—POVERTY RATES AMONG CHILDREN IN MARRIED-COUPLE FAMILIES BY INCOME SOURCE AND RACE: 1982-83

Income source	Total	White	Black
Father's earnings only	24.4	22.5	42.3
Plus mother's earnings	17.2	16.0	27.0
Plus all other private sources	15.0	13.8	24.4
Plus government cash transfers "official poverty rate"	12.4	11.3	20.9

Note.—Table prepared by CRS using data from the combined March 1984 and March 1983 Current Population Survey. Data are for "own children" in primary and secondary families only. The "official poverty rates" in this table were calculated on the basis of the Census Bureau definition, applied to two years' data.

COMPOSITION OF INCOME

MARRIED-COUPLE FAMILIES VERSUS FEMALE-HEADED FAMILIES

The composition of income of families with children differs by family type and, within married-couple families, by race (Table 4-5). Earnings accounted for 93 percent of income of married-couple families in 1982-1983 and for 69 percent of income of female-headed families. In married-couple families, fathers' earnings accounted for 59 percent of total income for blacks and 72 percent for whites; mothers' earnings, 31 percent for blacks and 17 percent for whites; and earnings of other family members, 3 percent for both blacks and whites. In mother-child families, mothers' earnings accounted for 62 percent of total income, and earnings of family members other than the mother accounted for 7 percent.

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[4] Aside from the "official poverty rates" in the last line, which are based upon total family income, the poverty rates in Table 4-4 depend upon the order in which the sources of income are listed. The order in the table reflects the relative contribution of the income sources to total income of married-couple families: fathers on average earn 71 percent, mothers on average earn 18 percent, and so on. A reason for listing earnings, and other private income before Government transfers is that families are expected to rely on income before resorting to Government transfers. However, if mothers' earnings were listed before fathers' earnings, the poverty rate based just on there earnings alone would be relatively high (since mothers on average earn about one-quarter of what fathers do) and the apparent effect of fathers' earnings on the poverty rate would be substantially smaller.

The first line in Table 4-4 reflects what poverty rates for children would be if fathers' earnings alone were considered for determining who is poor; it does not reflect what the rates would be if such earnings actually provided the only income married-couple families received. If fathers provided all of their families' income, they probably would work more (or seek higher paying work) than if their earnings were only one of several sources of family income. Thus, if married couple families suddenly lost all sources of income other than what the fathers' provided, the father would likely work more and the actual proverty rates based on their earnings would be somewhat lower than the hypothetical rates shown above.

In 1982–1983, 91 percent of married-couple families with children had earnings from the father, and 60 percent had earnings from the mother. Among female-headed families an average of 67 percent had earnings from the mother (the share was 52 percent for never-married mothers, 73 percent for divorced or separated mothers, and 56 percent for widows).

TABLE 4–5.— PERCENT OF TOTAL FAMILY INCOME FROM VARIOUS SOURCES BY FAMILY TYPE AND RACE: 1982 AND 1983

	Married-couple families		Female-headed families	
	White	Black	White	Black
Total	100.0	100.0	100.0	100.0
Pretransfer income	97.2	95.6	84.0	73.7
Earnings	92.6	92.9	69.2	68.9
Fathers' earnings	71.8	59.2	.0	.0
Mothers' earnings	17.4	30.6	62.0	62.7
Other members' earnings	3.4	3.1	7.3	6.2
Child support and alimony	.7	.8	10.7	3.7
Pensions	.8	.8	.7	.5
Interest, dividends	3.2	1.0	3.4	.5
Government transfers	2.8	4.4	16.0	26.3
OASDI, RR retirement[1]	.7	1.3	6.4	4.7
UI, WC, Vet payments[2]	1.7	2.3	1.7	2.1
AFDC, SSI, GA [3]	.3	.9	7.9	19.5

[1] OASDI is Social Security (Old Age Survivors and Disability Insurance).
[2] UI is Unemployment Insurance. WC is Worker's Compensation.
[3] AFDC, SSI and General Assistance are income-tested cash welfare benefits.

Source: March 1983 and 1984 Current Population Survey (CPS). Table prepared by CRS. Data for primary and secondary families with own related children and non-negative income.

FEMALE-HEADED FAMILIES BY MOTHER'S MARITAL STATUS

The composition of income for families with children headed by mothers differs by the mother's marital status: (a) never-married, (b) divorced or separated, or (c) widowed (Table 4–6). For never-married mothers the share of total 1982–1983 income represented by earnings, child support and alimony, and cash welfare was the same for black and white families. These families earned 59 percent of income, and cash welfare payments equaled 28 percent of their income, on average.

Divorced or separated mothers, black and white, both earned 68 percent of family income and their child support and alimony shares were similar. However, in this group cash welfare was the second largest income source for blacks, whereas for whites child support and alimony was the second largest source. Cash welfare was the third largest source for divorced white mothers raising children alone. For blacks the third largest source was earnings of other family members.

Composition of income of families of widowed mothers showed somewhat more variation by race. Black widows earned 40 percent of family income, whites, 30 percent. Social security represented 33 percent of black family income, 37 percent of white income. Other members of widowed mother families earned 12–13 percent of family income, the largest share among all types of families with children.

TABLE 4–6.—PERCENT OF TOTAL FAMILY INCOME FROM VARIOUS SOURCES, FEMALE-HEADED FAMILIES, BY MOTHER'S MARITAL STATUS AND RACE, 1982 AND 1983

	Female head, mother's martial status					
	Never married		Divorced, separated		Widowed	
	White	Black	White	Black	White	Black
Total	100.0	100.0	100.0	100.0	100.0	100.0
Pretransfer income	68.9	67.6	89.3	78.8	58.4	57.4
Earnings	63.9	64.3	74.4	73.6	42.8	51.5
Fathers' earnings	.0	.0	.0	.0	.0	.0
Mothers' earnings	58.5	58.9	68.1	67.8	30.3	39.8
Other members' earnings	5.4	5.3	6.2	5.8	12.6	11.7
Child support and alimony	2.8	2.7	12.5	4.5	1.0	1.2
Pensions	.0	.3	.1	.3	4.4	3.5
Interest, dividends	2.1	.4	2.3	.4	10.1	1.3
Government transfers	31.1	32.4	10.7	21.2	41.6	42.6
OASDI, RR retirement [1]	1.8	2.6	1.9	2.4	36.8	33.3
UI, WC, Vet payments [2]	1.4	1.4	1.4	2.5	3.9	2.9
AFDC, SSI, GA [3]	28.0	28.4	7.4	16.3	.9	6.4

[1] OASDI is Social Security (Old Age Survivors and Disability Insurance).

[2] UI is Unemployment Insurance. WC is Worker's Compensation.

[3] AFDC, SSI, and General Assistance are income-tested cash welfare benefits.

Source: March 1983 and 1984 Current Population Survey (CPS). Table prepared by CRS. Data for primary and secondary families with own related children and non-negative income.

POOR VERSUS NON-POOR FEMALE-HEADED FAMILIES WITH CHILDREN

The income composition of poor mother-child families differs from that of non-poor mother-child families. On the average, poor mother-child families depended on cash welfare for one-half of their 1982–1983 income and earned another third (29 percent earned by the mother). Non-poor families depended on earnings for 78 percent of income (70 percent earned by the mother) and on child support/alimony for 9 percent. In both poor and non-poor female-headed families, social security contributed 6 percent of total family income.

Never-married poor mothers depended on cash welfare for 66 percent of family income and earned another 24 percent. Poor divorced or separated mothers earned 32 percent of family income and poor widows, 15 percent. The largest single source of income for poor divorced or separated mothers was cash welfare (47 percent); for widows, poor and non-poor, it was social security (52 percent for poor families, 34 percent for the non-poor).

4. Earnings By Family Type, Race, Education, and Age

Determining what accounts for family earnings is a complicated matter and it is particularly difficult when appropriate data are not available. People bring to the labor market different characteristics that affect how much they work and how much they are paid. Their education, experience, ability, age, health, ambition, and dependability are thought to be significant. People also have different opportunities to earn income because of their social background, sex, race, family responsibilities, and place of residence. It is hard to determine which factors are more influential than others since so many are interrelated. Family background, for example, often affects the education one receives, which in turn affects one's knowledge. But knowledge is affected by family background and may itself affect opportunities for education. Similarly, one's sex often affects family responsibilities, which in turn affect work experience.

Whatever specific skills a worker brings to the market, his earnings are affected by the state of the economy. The supply and demand for labor is a function of both macroeconomic and microeconomic conditions. For example, aggregate demand might be high, but the earnings of steelworkers could be low as they suffer from the depressed conditions in the steel industry. In general, the earnings data analyzed in this chapter reflect macroeconomic conditions in 1982 and 1983, the last year of a recession and the first year of a strong economic recovery.

Finally, the cross-sectional data presented throughout this chapter must not be confused with longitudinal data. For example, Chart 4.2 shows earnings differences among mothers of different ages at a particular time, 1982–1983. Longitudinal data, however, would depict the experiences of individuals over time. It should not be inferred from Chart 4.2 that the differences among older mothers today will be experienced by younger mothers when they reach the same age. Similarly, it should not be inferred that the data for younger mothers in the chart reflects the historical experiences of mothers who now are older.

EARNINGS OF MOTHERS

The proportion of married mothers who work or seek to work has increased substantially in recent decades. Nearly three in five married women with children under the age of 18 now are in the labor force. For mothers without husbands—never-married, divorced or separated, or widowed mothers—more than two out of three participate today.[5]

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[5] Howard Hayghe, Working Mothers Reach Record Number in 1984. Monthly Labor Review, vol. 107. December, 1984, Table 1. The labor force participation rate of mothers without husbands, which has been relatively high since at least 1950, has not increased as much as that of married women. U.S. Bureau of the Census, Current Population Reports, Series P-23, No. 117, Trends in Child Care Arrangements for Working Mothers, U.S. Government Printing Office, Washington D.C., 1982. Figure 1.

Mothers must make a difficult decision about whether they should work for pay. The benefits from a job must be balanced against the responsibilities and costs of child care and household management. Child care costs are particularly high before children can be enrolled in school, but they continue even when children are older.[6]

In married-couple families, it is possible for fathers to assume some child care and household responsibilities. Some can change the hours they work, reduce the amount they work, or spend less time on leisure activities. These families may find it complicated to compare the costs and benefits of mothers' employment, but in the end they at least implicitly consider these factors.

In female-headed families, the options are fewer and the choices harder. These families do not receive earned income from fathers, aside from possible alimony or child support payments. (See Tables 4-5 and 4-6 for data on these payments.) These mothers generally need to earn income. On the other hand, because fathers are unavailable to help with child care and household chores, mothers need to spend additional time on these as well.

ANNUAL EARNINGS

Mean annual earnings of black mothers in 1982-1983 exceeded those of white mothers by almost $700, or 12 percent (Table 4-7). Overall, earnings averaged $5,927 per year: $6,539 for black mothers and $5,852 for white mothers.

Black wives in married-couple families earned an average of $7,762, 41 percent more than white wives; but black single mothers earned an average of $5,343, 31 percent less than white single mothers.

Differences by educational level

Black wives earned more at each educational level than white wives: those who did not complete, and may not have started, high school, 27 percent more; high school graduates, 48 percent more, and some college study, 51 percent more. However, single black mothers earned less than single white mothers at each level of schooling: high school dropouts, 28 percent less; high school graduates, 30 percent less; and some college study, 20 percent less.

The relative earnings gain associated with extra education was greater for black mothers than for whites. A black mother with a high school diploma but no college earned 124 percent more than a high school dropout; for one who completed some college, earnings were another 70 percent higher. For whites, these differentials were 85 percent and 53 percent, respectively.

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[6] For discussions of conflicts between time spent in employment and time spent on child care and household management, see Sarah Fenstermaker Berk, ed., Women and Household Labor. Beverly Hills: Sage, 1980; and Karen W. Feinstein, ed., Working Women and Families. Beverly Hills: Sage, 1979.

TABLE 4-7.—MEAN ANNUAL EARNINGS OF BLACK AND WHITE MARRIED AND SINGLE MOTHERS BY HIGHEST LEVEL OF EDUCATION COMPLETED: 1982–83

	Total			Married mothers			Single female-head		
	Total	White	Black	Total	White	Black	Total	White	Black
Total	$5,972	$5,852	$6,539	$5,717	$5,500	$7,762	$7,009	$7,766	$5,343
Failed to complete high school[1]	2,885	2,888	2,803	2,855	2,771	3,507	2,956	3,275	2,363
Completed high school	6,721	6,513	7,991	6,307	6,042	8,946	8,709	9,458	6,883
High school diploma only	5,454	5,344	6,274	5,023	4,874	6,905	7,320	8,073	5,667
Completed some college[2]	8,530	8,193	10,728	8,060	7,678	11,561	11,187	11,798	9,421

[1] Includes persons who did not start high school.

[2] Includes persons who were graduated from college.

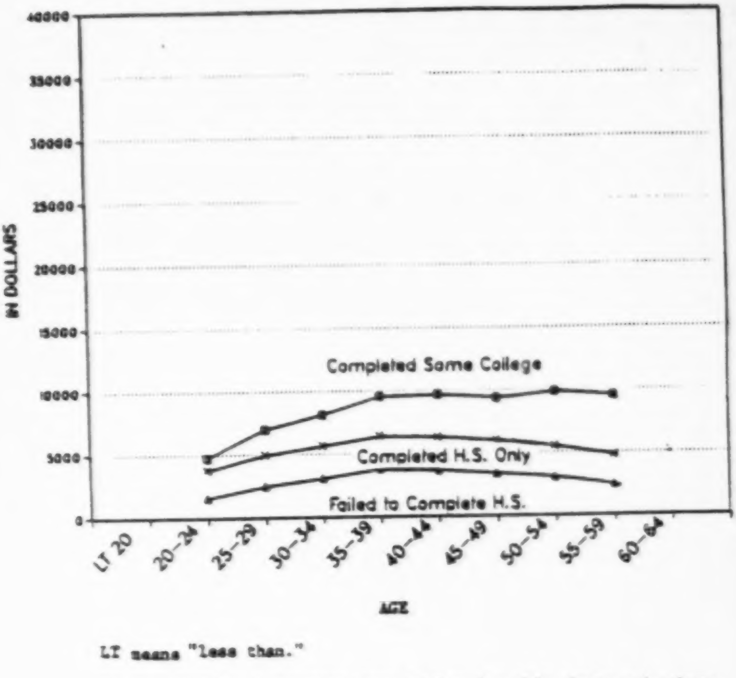
Note.—Table prepared by CRS using data from the combined March 1984 and March 1983 Current Population Survey. Data are for mothers with "own children" in primary and secondary families only. Mean annual earnings includes mothers without earnings. Negative earnings are treated as zero.

Mean annual earnings of mothers in 1982–1983 varied by age and levels of education (Chart 4.2). High school dropouts aged 40–44 earned 120 percent more than comparable mothers 20 years younger ($3,643 versus $1,612). (For data on which this chart is based, see table in Appendix I, which has support tables for all charts in the report.) Such older mothers with some college study also earned double the sum of mothers in their early twenties ($9,681 versus $3,748). However, mothers in their early forties who ended school with a high school diploma earned only 65 percent more than comparable mothers 20 years younger.

Peak earnings of mothers with some college study were for those aged 50 to 54 ($9,878). This was 72 percent below peak earnings of married fathers with some college study, received by those aged 50–54. (See Chart 4.5 for married fathers' earnings, by age and education.)

CHART 4.2

MEAN ANNUAL EARNINGS FOR MOTHERS
BY AGE AND EDUCATION: 1982 – 1983



LT means "less than."

Note: Appendix I provides data tables for this chart and others in the report.

Hours worked by mothers

Mothers generally work many fewer hours during the year than fathers. On the average, as Table 4-8 shows, mothers in married-couple families worked 894 hours in 1982-1983, and mothers raising children alone worked 1,089 hours. In contrast, fathers in married-couple families worked an average of 1,965 hours.

TABLE 4-8.—MEAN ANNUAL HOURS WORKED BY MOTHERS BY FAMILY TYPE, RACE, NUMBER OF CHILDREN, AND YOUNGEST CHILD'S AGE, 1982-83

	Married			Female-head		
	Total	White	Black	Total	White	Black
Total	894	869	1,155	1,089	1,183	887
Youngest child's age:						
Under 6	751	718	1,096	796	867	671
6 to 12	984	957	1,237	1,207	1,289	1,033
13 to 17	1,089	1,079	1,168	1,379	1,439	1,171
1 child (total)	1,032	1,013	1,257	1,254	1,318	1,078
Youngest child's age:						
Under 6	950	930	1,268	980	1,035	838
6 to 12	1,109	1,075	1,377	1,320	1,372	1,215
13 to 17	1,079	1,071	1,158	1,438	1,494	1,225
2 children (total)	872	841	1,226	1,061	1,158	845
Youngest child's age:						
Under 6	707	664	1,188	798	884	663
6 to 12	993	968	1,292	1,229	1,310	1,017
13 to 17	1,109	1,098	1,167	1,263	1,315	1,081
3 or more children (total)	683	646	948	727	887	642
Youngest child's age:						
Under 6	564	518	896	518	499	519
6 to 12	834	807	1,020	955	1,072	780
13 to 17	1,124	1,099	(1)	1,039	(1)	(1)

[1] Data not shown. Sample size less than 75,000 weighted cases.

Note.—Table prepared by CRS using data from the combined March 1984 and March 1983 Current Population Survey.

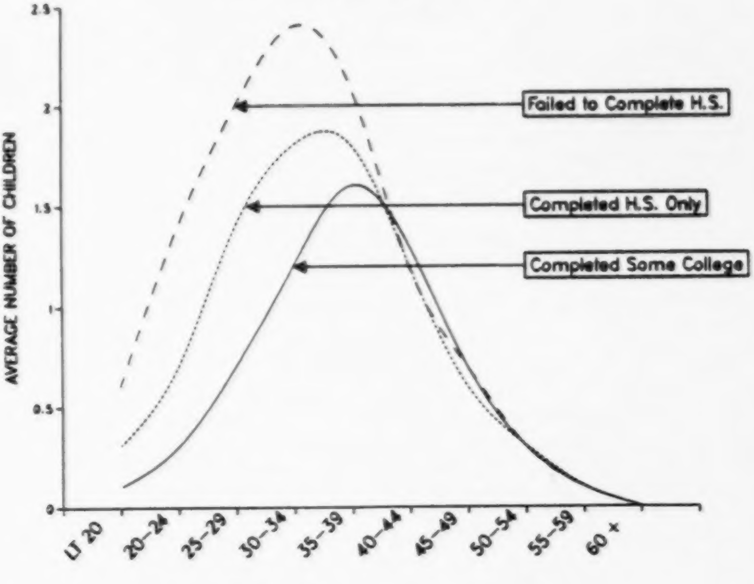
Black versus white mothers.—White mothers raising children alone worked an average of 1,183 hours in 1982-1983, one-third more than comparable black mothers. However, white mothers in married-couple families worked an average of 869 hours, one-fourth less than such black mothers. Overall, black mothers worked 11 percent more hours yearly than whites (1,019 compared to 918).

Number of children.—For both married-couple and single-parent families, the differences in hours worked by white and black mothers grow with number of children. For instance, single black mothers with only one child worked about 82 percent of the hours of corresponding white mothers in 1982-1983; those with three or more children worked only about 72 percent of the hours of white mothers. Similarly, married white mothers with only one child worked 81 percent of the hours of corresponding black mothers; those with three or more children worked only about 68 percent of the hours of comparable black mothers (Table 4-9).

The average number of children living at home is related to mothers' educational attainment and age, as shown in Chart 4.3. Young mothers who have not completed high school on the average have more children at home, at least in their twenties and thirties, than do mothers who are high school graduates or who have attended college. In part this is because mothers without high school diplomas have more children than other mothers; it is also because they have children at an earlier age. The chart suggests that women with higher educational attainment goals may defer motherhood until they are older, even after they have completed school. It also suggests that having children at a young age reduces the likelihood of acquiring additional education. Young mothers also may find it harder to establish a career. The differences associated with age and educational attainment apply to black women as well as white, though the former on the average have slightly more children.

CHART 4.3

AVERAGE NUMBER OF CHILDREN LIVING AT HOME
BY WOMENS' AGE AND EDUCATION
1982–1983



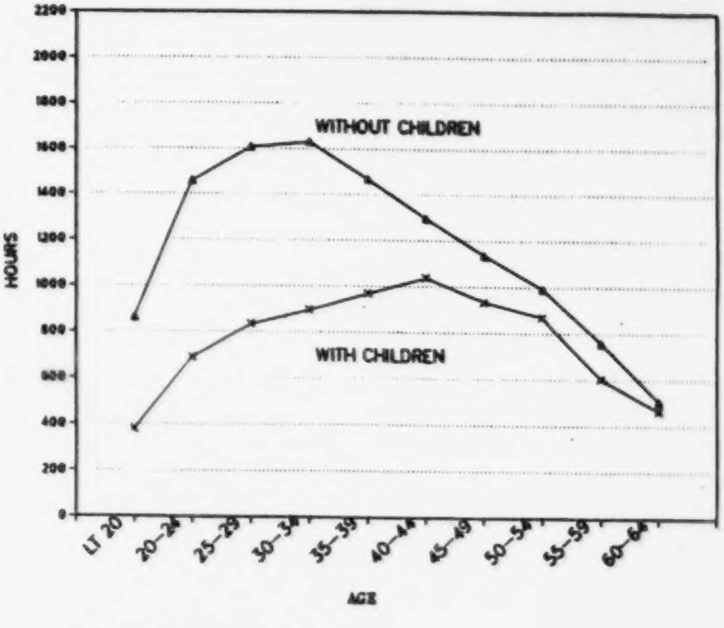
H.S. means high school.

Age differences.—Given child care and household responsibilities, it is not surprising that mothers generally work fewer hours than fathers. Moreover, as those responsibilities increase, hours of work decrease. Married women under the age of 35 without children worked an average of 1,570 hours in 1982–1983. Married women under 35 with one child worked 1030 hours; those with two children worked 780 hours, and those with three or more children worked 600 hours. Married women with a child under 6 years old worked an average of 751 hours per year in 1982–83; those whose youngest child was between 6 and 12 years old worked 984 hours; those whose youngest child was between 13 and 17 worked 1,089 hours (Table 4–8).

Chart 4.4 shows that on the average married mothers aged 40–44 (with children at home) worked largest number of hours per year (slightly more than 1,000 hours). Mothers 20 years younger worked about one-third fewer hours (slightly less than 700).

CHART 4.4

MEAN ANNUAL HOURS WORKED BY MARRIED WOMEN
BY WOMEN'S AGE AND PRESENCE OF CHILDREN: 1982–1983



LT means "less than."

Mean hourly earnings of mothers

Average hourly earnings of white mothers appeared to be almost 5 percent larger than those of black mothers (Table 4-9).

In general, hourly earnings of white mothers were about 40 percent below those of white married fathers. Black mothers' hourly earnings were about 30 percent below those of black married fathers. (See Table 4-13 for married fathers' hourly earnings.)

TABLE 4-9.—MEAN HOURLY EARNINGS OF BLACK AND WHITE MOTHERS BY HIGHEST LEVEL OF EDUCATION COMPLETED: 1982-83

	Total	White	Black	Black/white ratio (percent)
Total	$6.49	$6.51	$6.22	96
Failed to complete high school [1]	4.77	4.76	4.81	101
Completed high school	6.77	6.78	6.53	96
High school diploma only	5.73	5.71	5.89	103
Completed some college [2]	8.08	8.15	7.35	90

[1] Includes persons who did not start high school.

[2] Includes persons who were graduated from college.

Note.—Table prepared by CRS using data from the combined March 1984 and 1983 Current Population Surveys. Data are for married mothers and mothers maintaining a family without a husband present. Mothers are those with "own related children" in primary and secondary families only.

EARNINGS OF FATHERS

ANNUAL EARNINGS OF FATHERS

The proportion of married women with children under the age of 18 who work or seek to work (those in the labor force) has increased from about one in five in 1950 to nearly three in five today.[7] Nonetheless, fathers overall earn about 71 percent of total income in married-couple families, about four times the share earned by mothers.

On the average, married fathers earned an average of $22,013 per year in 1982-1983 (Table 4-10). Earnings varied sharply by race, educational attainment, and age.

Differences by educational level

Married fathers who received a high school diploma, but did not proceed to college, earned an average of $19,190, a gain of 49 percent over the earnings of those who did not complete high school. Married fathers who engaged in some college study earned an average of $28,369, 48 percent more than the sum earned by those who stopped at a high school diploma, and more than double the average sum earned by those who did not finish high school.

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[7] Waldman, Elizabeth. Labor Force Statistics from a Family Perspective. Monthly Labor Review. Dec. 1983. p. 18.

TABLE 4-10.—MEAN ANNUAL EARNINGS OF BLACK AND WHITE MARRIED MEN WITH CHILDREN, BY HIGHEST LEVEL OF EDUCATION COMPLETED: 1982-83

	Total	White	Black	Black/white ratio (percent)
Total	$22,013	$22,653	$14,750	65
Failed to complete high school [1]	12,912	13,511	9,499	70
Completed high school	24,074	24,623	16,753	68
High school diploma only	19,190	19,721	14,358	73
Completed some college [2]	28,369	28,904	19,934	69

[1] Includes persons who did not start high school.

[2] Includes persons who were graduated from college.

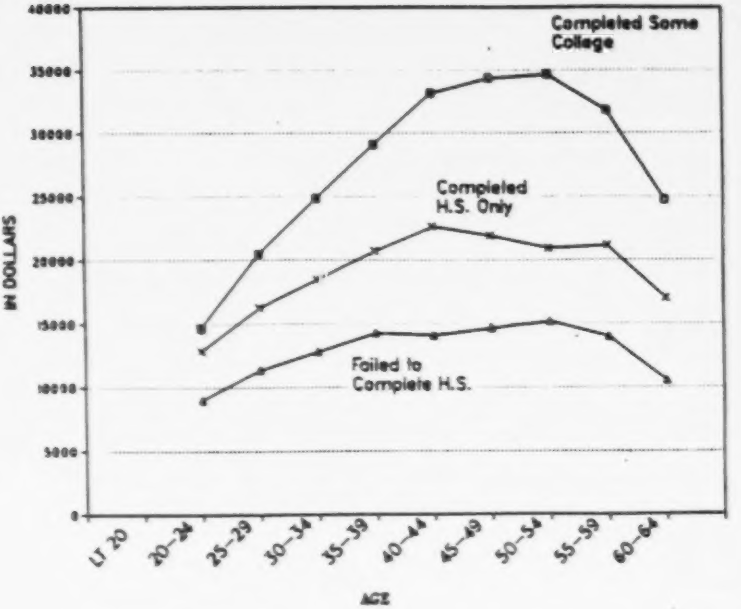
Note.—Table prepared by CRS using data from the combined March 1984 and 1983 Current Population Surveys. Mean annual earnings includes fathers with zero earnings. Negative earnings are treated as zero earnings.

Chart 4.4 presents mean annual earnings of married men with children, by father's age and education, 1982-1983. It shows that age as well as education directly relates to earnings. Annual earnings are higher for fathers who are in their forties and fifties. One reason that age is related to fathers' earnings may be that young men have not had so much opportunity to learn on the job as have older men. By their thirtieth birthday, men who have worked since their eighteenth birthday have had three times as much work experience as men who are aged 22.

The chart also shows that at each age level fathers who have completed high school have annual earnings well above those who have not; the same is true for those with college study compared to those without it. For those in their twenties, the premium for college study is smaller, about 63 percent; but for fathers who are in their forties, the premium is about 136 percent. Annual earnings of fathers who undertook some college study, and of high school dropouts, are highest for those aged 50-54, but these earnings are only 4 percent and 8 percent, respectively, higher than corresponding earnings for those aged 40-44.

CHART 4.5

MEAN ANNUAL EARNINGS FOR MARRIED MEN WITH CHILDREN BY FATHER'S AGE AND EDUCATION: 1982 – 1983

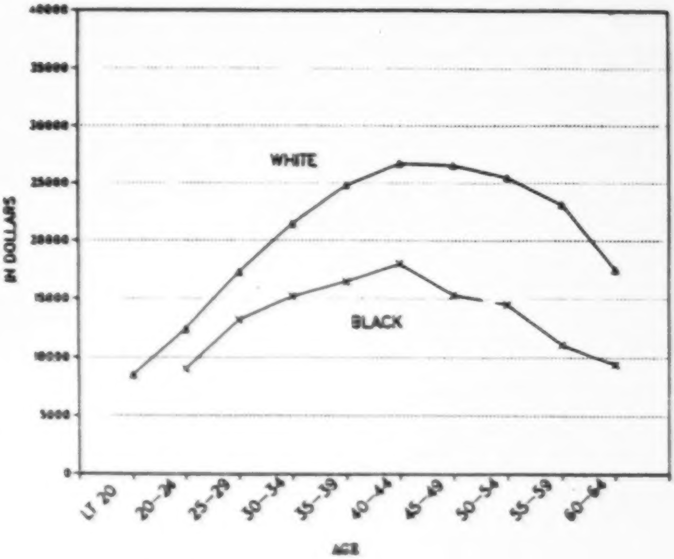


LT means "less than."
H.S. means high school.

Mean annual earnings of married white fathers exceed those of black fathers at each age. This is shown on Chart 4.6. To some extent educational attainment accounts for differences in average earnings of white and black fathers. When fathers with the same educational attainment are compared, however, black fathers generally earn about 70 percent of what white fathers do (Table 4-10).

CHART 4.6

MEAN ANNUAL EARNINGS OF BLACK AND WHITE MARRIED MEN WITH CHILDREN BY FATHER'S AGE: 1982–1983



LT means "less than."

Hours worked by fathers

Fathers in married-couple families worked an annual average of 1,965 hours in 1982-1983.

Black versus white fathers.—On the average, black married fathers worked 18 percent fewer hours per year (equivalent to more than 2 months of full-time work) than white married fathers in 1982-1983 (Table 4-11). To some extent, their fewer hours of work reflected higher unemployment rates experienced by black fathers in these years, which might have discouraged some from participating in the labor force. Hours worked increased with education and the racial gap in hours worked narrowed with education.

TABLE 4-11.—MEAN ANNUAL HOURS WORKED BY BLACK AND WHITE MARRIED MEN WITH CHILDREN, BY HIGHEST LEVEL OF EDUCATION COMPLETED: 1982-83

	Total	White	Black	Black/white ratio (percent)
Total	1,965	1,999	1,631	82
Failed to complete high school [1]	1,666	1,717	1,397	81
Completed high school	2,033	2,060	1,720	83
High school diploma only	1,929	1,961	1,634	83
Completed some college [2]	2,124	2,146	1,835	86

[1] Includes persons who did not start high school.

[2] Includes persons who were graduated from college.

Note.—Table prepared by CRS using data from the combined March 1984 and 1983 Current Population Surveys. Data use for fathers with "own children" in primary and secondary married couple families only.

Age differences.—Hours worked by fathers vary with their age (Chart 4.7). Fathers in their twenties worked fewer hours in 1982-1983 than those in their thirties; the latter in turn worked fewer hours than those in their forties. Those aged 45 and above worked fewer hours. These patterns partly reflect decisions about whether to work: some young fathers may choose to enroll in school; some older ones may choose to retire. The data also reflect involuntary separation from work: men in their twenties generally have relatively high rates of unemployment (especially so for blacks).[8] Older men also may be more prone to illness or disability. As the chart shows, the difference between white and black fathers' annual hours of work was largest for young men. Black fathers between the ages of 20 and 24 worked an average of 1,130 hours yearly, 65 percent of the 1,730 hours worked by comparable white fathers. Black fathers between the ages of 40 and 44, however, narrowed that gap. They averaged 1,820 hours of work yearly, 86 percent of the corresponding white average.

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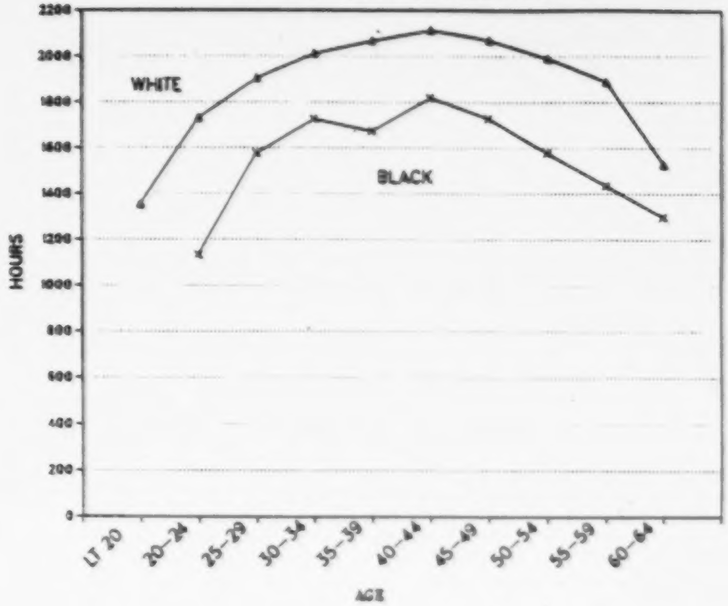
[8] For data on participation and unemployment rates by age, see U.S. Department of Labor. Bureau of Labor Statistics. Educational Attainment of Workers, March 1982-83. Bulletin 2191. Tables B-6 and B-12.

CHART 4.7

MEAN ANNUAL HOURS WORKED BY
BLACK AND WHITE MARRIED MEN WITH CHILDREN
BY FATHER'S AGE: 1982–1983



LT means "less than."

Mean hourly earnings of fathers

Hourly earnings of black married fathers were 77 percent of those of white married fathers (Table 4–12). The black/white wage ratio was slightly lower for those who engaged in some college study (75 percent) and somewhat higher for those who did not complete high school (87 percent).

TABLE 4–12.—MEAN HOURLY EARNINGS OF BLACK AND WHITE MARRIED MEN WITH CHILDREN BY HIGHEST LEVEL OF EDUCATION COMPLETED: 1982–83

	Total	White	Black	Black/ white ratio (percent)
Total	$11.14	$11.32	$8.68	77
Failed to complete high school [1]	7.93	8.05	6.99	87
Completed high school	11.82	11.99	9.26	77
High school diploma only	9.96	10.13	8.23	81
Completed some college [2]	13.41	14.07	10.56	75

[1] Includes persons who did not start high school.

[2] Includes persons who were graduated from college.

Note.—Table prepared by CRS using data from the combined March 1984 and 1983 Current Population Survey.

5. Conclusion

Market income poverty afflicted more than one-fourth of U.S. children in 1982–1983, compared with one out of five in 1978.

Children being raised by their mother alone had the highest incidence of earnings poverty. Mothers' earnings fell short of the poverty threshold for 68 percent of such children (82 percent in the case of those with never-married mothers). Even in married-couple families, combined earnings of father and mother fell short of the poverty threshold for 17 percent of the children.

Although having a full-time breadwinner sharply reduced a child's chances of being poor, it was no guarantee against poverty. For instance, if a black single mother worked full-time (more than 2,000 hours per year) and if government cash transfer payments were added to her market income, the chances that her child would be poor exceeded one in five in 1982–1983. For the child of such a white mother, the incidence of poverty was one out of 12.

In all, it is estimated that 2.5 million children were officially poor even though at least one of their parents worked full-time throughout the year. These children represented more than one-sixth of all poor children in 1983, including one-third of the poor children in married-couple families.

The incidence of child poverty is related to the age, education, and race of the child's parents, as well as to whether he lives with both parents or only with the mother.

Young parents are likely to work fewer hours and to earn less per hour than older parents. They tend to have younger children, who require more care. Women who become mothers at a very early age may have relatively poor prospects for attaining additional schooling or establishing a work history. Alternatively, women with poor education or career prospects may become mothers at younger ages. Similarly, men who become fathers at a young age may have to forego investment in education in order to earn money for the family's immediate needs.

Child poverty rates are related to education of parents. Among both fathers and mothers, those with higher levels of educational attainment earn more per year and work more hours, on average, than those with lower levels of schooling.

Earnings and child poverty rates are related to race. In married-couple families, black fathers on average work fewer hours during the year and earn less per hour than white fathers, at each level of education. Black married mothers tend to work more hours than their white counterparts and to have higher annual earnings. Nevertheless poverty rates for black children in married-couple families are twice those of comparable white children. In mother-child families, however, black mothers work fewer hours than white mothers and have smaller earnings.

The consequences of a father's absence upon the poverty status of children often are severe and usually reflect his earnings. A younger father is likely to have low earnings potential; and ability of an older father to pay child support or alimony is greater. Further, an older family is likely to have greater savings with which to meet the extra income needs caused by divorce or separation. If the father dies, his lifetime earnings may indirectly provide for continued income support, through pension benefits, income from accumulated savings, insurance annuities, and social security benefits.

It appears that a reduction in market income poverty rates of children requires a strong economy and lower unemployment rates, especially for black men. Further, it appears that the incidence of earnings poverty among children would be lowered if:

—more parents became married and stayed married;
—more parents stayed in school longer;
—fewer teenagers had babies;
—hourly earnings of blacks rose closer to those of whites.

CHAPTER V. THE RELATIONSHIP OF UNEMPLOYMENT AND INCOME DISTRIBUTION TO POVERTY AMONG CHILDREN*

> A rising tide lifts all boats.
>
> —John F. Kennedy, August 17, 1962.[1]

> We cannot leave the further wearing away of poverty solely to the general progress of the economy. A faster reduction of poverty will require that the lowest fifth of our families be able to earn a larger share of national output.
>
> —Annual Report of the Council of Economic Advisers, January 1964, p. 60–61

1. Introduction

The two quotations above, one from President Kennedy and the other from his successors' Council of Economic Advisers, illustrate the debate between those who believe that promoting economic growth is the surest way to reduce the rate of poverty and those who believe that income transfer programs must continue to play an important role. Indeed, those who advocate greater redistribution of income fear that economic growth will not lift all boats equally, and that the rate of poverty will remain at troublesome levels for some time to come. Although the analysis in this chapter does not resolve this debate, it does show that growing inequality of income has led to higher poverty rates.

ORGANIZATION OF THE CHAPTER

This chapter analyzes the relationship of unemployment and the distribution of income to poverty among families with children. It has seven basic parts:

—A comparison of the relationship between unemployment rates and trends in poverty rates;

—A comparison between the trends in poverty rates before and after the receipt of cash transfers;

—A comparison of two measures of income distribution, one based on family incomes and one based on family incomes adjusted by the official measure of need, the poverty thresholds. The latter measure is called the "poverty ratio," which is family income divided by the appropriate family poverty threshold. This permits an analysis of how well off families with children have been from one year to the next because it adjusts family income for inflation and family size;

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* Much of this chapter is based on work done under contract by Peter Gottschalk of Bowdoin College. Richard A. Hobbie rewrote Dr. Gottschalk's draft and added several sections. Richard Verdugo developed the decile and Gini coefficient analysis, prepared the computer graphs, and helped rewrite the chapter.

[1] Remarks in Pueblo, Colorado, Aug. 17, 1962, Public Papers of Presidents, John F. Kennedy, 1962, p. 626.

—An analysis of the trends in the distribution of family poverty ratios from 1968 through 1983;

—An analysis of mean (average) family income poverty ratios;

—An analysis of changes in poverty rates from 1968 through 1983 based on changes in mean market income (mainly earnings), cash transfer income, and the inequality of total income, all relative to poverty; and

—Simulations of future poverty rates under certain assumptions about real economic growth.

FINDINGS

In general, the analysis found:

—Changes in unemployment rates affect the market income poverty rates of male-headed families, but not female-headed families.

—A narrowing trend has recently occurred between the poverty rates calculated before and after cash transfers are counted, probably because of the recent decline in real cash transfers, and to a lesser extent an attendant increase in work among this group.

—In 1983, the average family income of families with children was $25,283. About 19 percent of families with children were below the poverty line, and 22 percent of all children experienced poverty. The average family poverty ratio was 2.48, meaning that the average family had about two and a half times as much income as it needed to stay out of poverty.

—The distribution of family poverty ratios was more unequal in 1983 than in 1968.

—Relative to the poverty thresholds, average market income peaked between 1978 and 1980, depending on race and sex of family head. Although cash transfers relative to the poverty thresholds grew in the late 1960s and early 1970s for female-headed families with children, they are lower in 1983 than they were in 1968.

—Growing inequality of the distribution of family income relative to the poverty thresholds has been an important factor in raising the poverty rates of families with children.

—A simulation model estimated that economic growth alone would not reduce rapidly the rate of poverty for families with children. Using economic assumptions within the range of experience, the simulations suggest that it might take as long as 12 to 18 years for male-headed families and 5 to 8 years for nonwhite female-headed families to drop back to the poverty levels experienced as late as 1979.

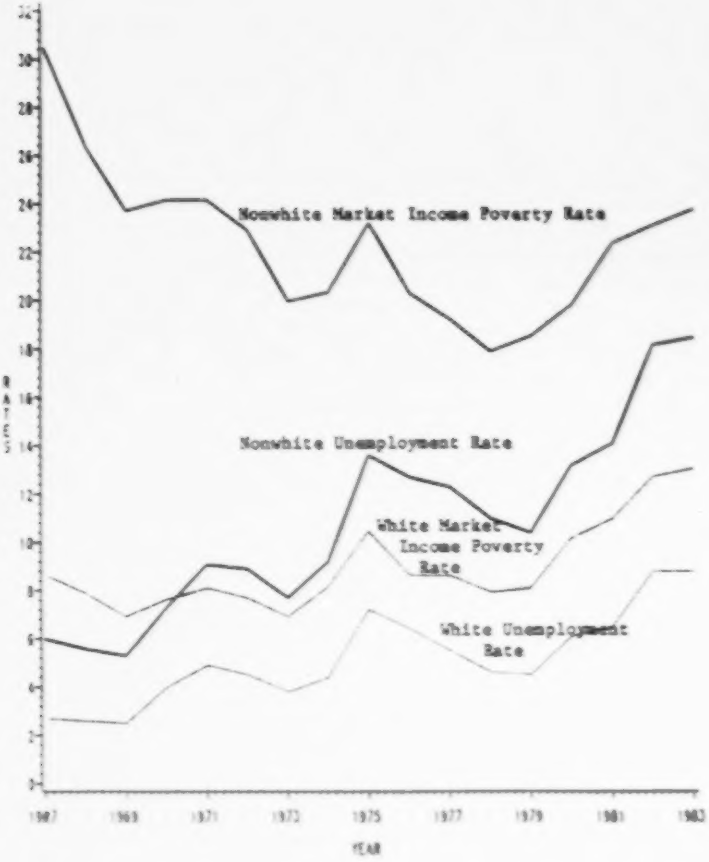
2. The Economic Cycle and Long-Term Trends in Market Income Poverty Rates

This section examines the relationship between the economic cycle and long-term trends in the incidence of market income poverty of selected families with children since 1967. It shows that economic cycles affect the proportion of male-headed families whose market income falls short of their poverty thresholds. In contrast, the market income poverty rates for female-headed families change little in relation to the economic cycle. Many factors affect the long-term trends in poverty, and their relationships are complex. These factors might include not only the demographic composition of the population, but important economic phenomena, such as economic growth, the distribution of market and cash transfer income, labor productivity, possible race and sex discrimination, and the changing occupational-industrial mix in the economy.

MEN

Chart 5.1 compares the market income poverty rates for men heading families with children to the unemployment rates for all nonaged (under 66 years old) adult men. The changes in incidence of market income poverty for these men appear to reflect their unemployment rates. For example, market income poverty rates for the white and nonwhite men increased 28 and 14 percent, respectively, from 1974 to 1975, when their unemployment rates jumped 64 and 48 percent. Moreover, the market income poverty rates of men heading families with children climbed steadily with their unemployment rates from 1979 to 1982. By 1983, 13.1 percent of white men heading families with children and 23.8 percent of such nonwhite men were "poor" on the basis of market income only.

CHART 5.1. Market Income Poverty Rates and Unemployment Rates for Nonwhite and White Males: 1967 to 1983



Note: Unemployment rates are for adult males younger than 66.
Poverty rates are for male-headed families with children.

Appendix I provides data for this chart and others in the report.

WOMEN

Chart 5.2 shows a comparison of market income poverty rates for women heading families with children and unemployment rates for all nonaged women. In contrast to the situation for men, changes in these unemployment rates appear to have little effect on the relatively high proportion of female-headed families whose market incomes fall short of their poverty thresholds. However, the long-term downward trend in market income poverty rates for white and nonwhite female-headed families seems to have temporarily stopped after 1979 for whites and after 1980 for nonwhites.

Chart 5.2 also highlights a seeming paradox in the long-term trends. Although the unemployment rates of nonwhite women under 66 years old almost doubled from 9.1 percent in 1967 to 17.1 percent in 1983, the market income poverty rate of nonwhite female-headed families declined from 76.2 percent to 68.8 percent.[3] However, this is partly because relatively more nonwhite women took jobs or sought work. For example, the increased labor force participation rates of black women from 48.7 percent in 1972 to 54.2 percent in 1983 led not only to substantial employment and earnings gains, but, ironically, to higher unemployment rates as well. All other things held constant, if the nonwhite female labor force participation rate had remained at its 1972 level, the unemployment rate in 1983 would have been only 9.4 percent, a figure more consistent with the general lack of relationship between market income poverty rates of women and their unemployment rates.

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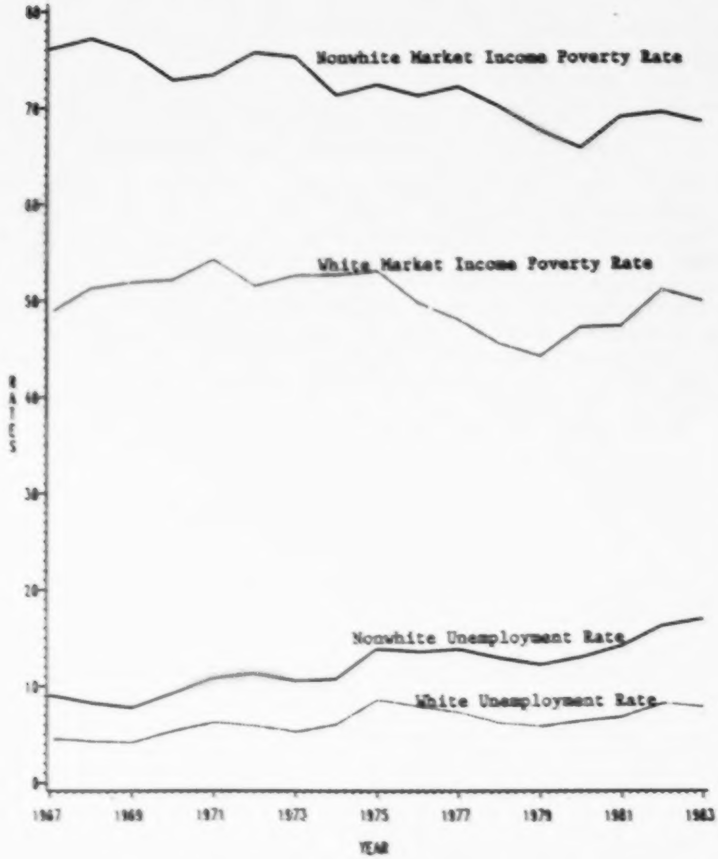
[3] A more appropriate comparison might be between 2 years that were at about the same stage of their respective economic cycles such as 1971 and 1983. However, the economic phase before 1983 was very different from the one before 1971, and using 1971 would shorten the period for comparison by 4 years.

CHART 5.2. Market Income Poverty Rates and Unemployment Rates for Nonwhite and White Females: 1967-1983



Note: Unemployment rates are for adult females younger than 60. Poverty rates are for female-headed families with children.

3. Cash Transfers and Post-Transfer Poverty Rates

This section compares the trends in the market income poverty rates and post-transfer poverty rates. It shows that cash transfers reduce poverty rates below actual market income poverty rates, but that the difference between market income poverty rates and post-transfer poverty rates has narrowed. This narrowing trend probably resulted from the decline in real cash transfers in the late 1970s and 1980s, and to a lesser extent from an attendant increase in work.

WORK DISINCENTIVE EFFECT OF CASH TRANSFERS

Market income would be higher if income transfers did not exist. This would make the market income poverty rate lower than what we observe. It would not, however, make the market income poverty rate lower than the post-transfer poverty rate achieved under the current welfare system.

Cash transfers to the poor reduce the poverty rate. This will occur as long as recipients maintain their earnings level or, if they cut back on work, reduce their market income by less than a dollar for each dollar of cash transfers. Even before the rise in cash transfers in the 1960s, roughly half of all poor heads of families did not work. In the short-run, additional income transfers for them might not have any effect on their market income because they had none, but it could affect market income later to the extent that it might further discourage them from seeking work. For poor heads of families with earnings the existing labor supply evidence suggests that they earn less after receiving cash transfers than before, but that they reduce their earnings by less than a dollar for a dollar's worth of cash transfers. Hence, a net decrease in their poverty rate results.

INCOME MAINTENANCE EXPERIMENT RESULTS

Henry Aaron recently summarized the estimated effect of cash transfers on work from the Seattle-Denver Income Maintenance Experiment.[3]

> * * * Their experiments found that few men who were offered cash assistance actually quit their jobs and that the reduction in the number of hours they worked was under 10 percent. But the tests also suggested that for every $100 provided to male-headed families, earnings would fall $25 to $50. The effect of cash grants on the labor supply of female family heads was somewhat greater than the effect on males—and the impact on the behavior of wives and young single adults was greater still. This leakage could be reduced by imposing effective work requirements, but that strategy raised other questions to be addressed below.

* * * * *

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[3] Aaron, Henry J. Six Welfare Questions Still Searching for Answers, the Brookings Review, fall 1984, pp. 13–14.

> The acknowledgement of the need for a work requirement created an insoluble dilemma, however. With a sufficiently coercive administrative system, potential welfare recipients could be required to accept existing low-quality, low-wage jobs in the private sector. If enough private sector jobs did not exist, public sector positions could be created at low cost. If a work requirement discouraged enough people from applying for welfare, costs might even be reduced. But the coercion that would be necessary to make such a requirement work violated notions of fairness and rights. Alternatively, the public sector could create jobs with sufficiently attractive working conditions and wages to reduce greatly the need for coercion. But the size of the program would be unprecedented, and its cost would be prohibitive, particularly since many workers in unattractive private sector jobs would find it expedient to switch to superior public sector jobs. Trapped on this political Moebius [sic]* strip, welfare reform went nowhere.

The Seattle-Denver income maintenance experiment results probably overstate the work disincentive effect of cash transfers today because they reflect on average a relatively generous cash transfer program with a guarantee of 115 percent of the poverty line and a benefit reduction rate of 50 percent. In contrast, the combined AFDC and food stamp benefits in the median State at the beginning of 1985 for a one-parent family of three persons with no countable income equalled only 73 percent of the poverty line. Also, the statutory marginal benefit-reduction rate under AFDC alone was 67 percent of "net earnings" [4] for the first four consecutive months of work and 100 percent thereafter.

IMPACT OF INCREASED CASH TRANSFERS, 1967–74

Table 5–1 summarizes the only sophisticated estimates available on the effect of increased cash transfers from 1967 to 1974 on the poverty rate after accounting for work disincentive effects. It shows that the doubling in real cash transfers from 1967 to 1974 corresponded to an additional 37 percent decline in the poverty rate. One can see in each year that the *actual* market income poverty rates with the existing cash transfer for these years of 12.5 and 13.9 percent were higher than the estimated market income poverty rates of 11.9 and 12.4 percent, respectively, that would have occured in the absence of cash transfers. This means that cash transfers were estimated to have increased the market income poverty rates by 5 percent in 1967 and, after doubling in real terms, by 12 percent in 1974 through declines in earnings. This is a measure of the additional work disincentive effect of the rise in real cash transfers.

Despite this additional work disincentive effect, the post-transfer poverty rates were lowered even further. The post-transfer poverty rates of 11.2 and 11.4 percent were lower than the estimated market income poverty rates in the absence of cash transfers by 5.9

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*A Möbius strip is a one-sided surface that is constructed from a rectangle by holding one end fixed, rotating the opposite end through 180 degrees, and applying it to the first end.

[4] "Net earnings" under AFDC mean gross earnings minus (a) $105 monthly standard earnings deduction and (b) actual child care costs, up to $160 monthly per child (first year of work). Thereafter the standard deduction drops to $75 monthly.

percent in 1967 and 8.1 percent in 1974. Thus, even though the higher transfers probably induced a rise in market income poverty through the work disincentive effect, their net effect appears to have been to cut the poverty rate 37 percent more than it would have been (((8.1/5.9)−1)x 100 = 37%) if cash transfers had not increased substantially.

TABLE 5-1.—ESTIMATED CHANGE IN THE RATE OF POVERTY BEFORE AND AFTER CASH TRANSFERS IN 1967 AND 1974 (PERCENTS) [1]

	1967	1974
Actual market income poverty rate with existing transfers	12.5	13.9
Estimated market income poverty rate in the absence of cash transfers	11.9	12.4
Poverty-transfer poverty rate	11.2	11.4
Percentage change in poverty rate from the estimated market income poverty rate in the absence of cash transfers to the post-transfer poverty rate	−5.9	−8.1

[1] Samples included all persons living in families headed by persons between the ages of 20 and 59 and not the armed services. Transfers to these families increased from $12.6 to $26.6 billion (constant 1983 dollars) from 1967 to 1974.

Source: Danziger, Sheldon and Robert Plotnick, The War on Income Poverty: Achievements and Failures, in Welfare Reform in America, p. 44.

IMPACT OF TRANSFERS ON POVERTY RATES, 1967-83

Charts 5.3 and 5.4 show the actual market income poverty rates and the post-transfer poverty rates from 1967 through 1983 for females and males heading families with children, respetively. One would expect the difference between the respective actual market income poverty rates and the post-transfer poverty rates to change with the level of real cash transfers. That is, as the level of real cash transfers increases, the difference between the actual market income poverty rate and the post-transfer poverty rate increases. This would occur for two reasons:

(1) As real cash transfers increase, the actual market income poverty rate will increase as cash transfer recipients reduce their earnings.

(2) As real cash transfers increase, the post-transfer poverty rate will decrease as cash transfer recipients reduce their earnings by less than their increase in cash transfers.

The reverse of this pattern would also occur for decreases in cash transfers:

(1) As real cash transfers decrease, the actual market income poverty rate will decrease as cash transfer recipients increase their earnings.

(2) As real cash transfers decrease, the post-transfer poverty rate will increase as cash transfer recipients increase their earnings by less than their decrease in cash transfers.

One can observe this pattern in chart 5.5, particularly for females heading families with children. For white females, the difference between actual market income poverty rates and post-transfer poverty rates increased with the increased real cash transfers from 1967 to 1973. Then, it dropped precipitously with the ensuing decline in real cash transfers in the late 1970s and 1980s. A similar pattern appears for nonwhite females, except that they fluctuated around a plateau of about 12 percentage points between 1969 and 1975. Likewise, males have a comparable pattern, which is not as evident because of their relatively low poverty rates.

CHART 5.3. Market Income Poverty Rates and Post-Transfer Poverty Rates for Nonwhite and White Males: 1967 to 1983

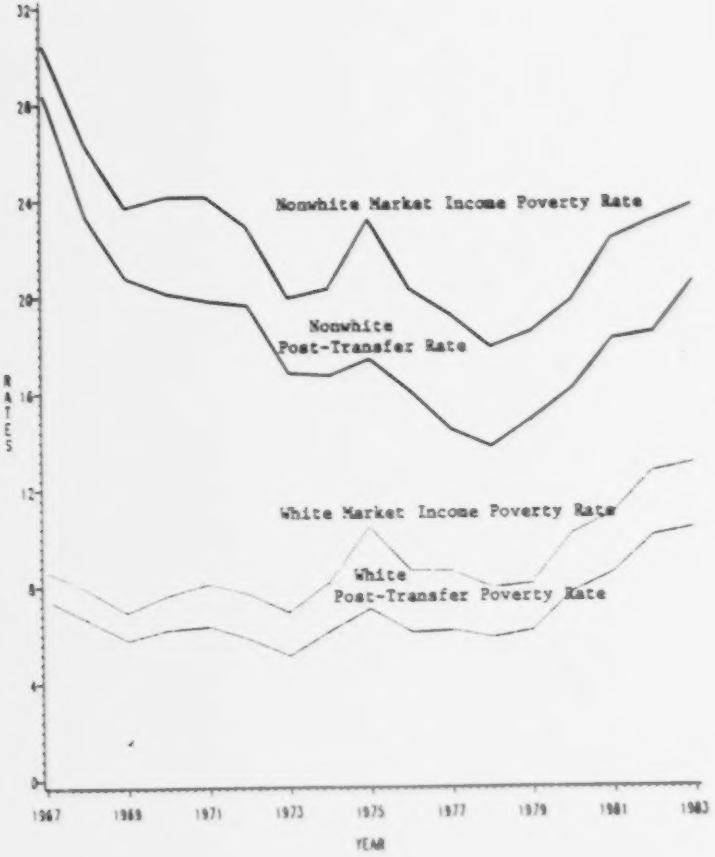


CHART 5.4. Market Income Poverty Rates and Post-Transfer Poverty Rates for Nonwhite and White Females: 1967 to 1983

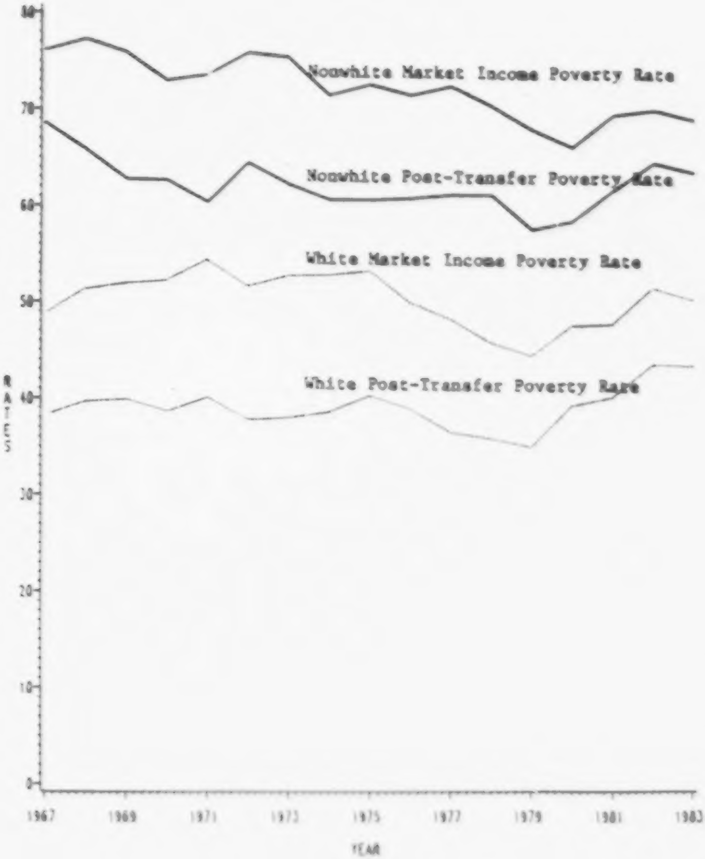
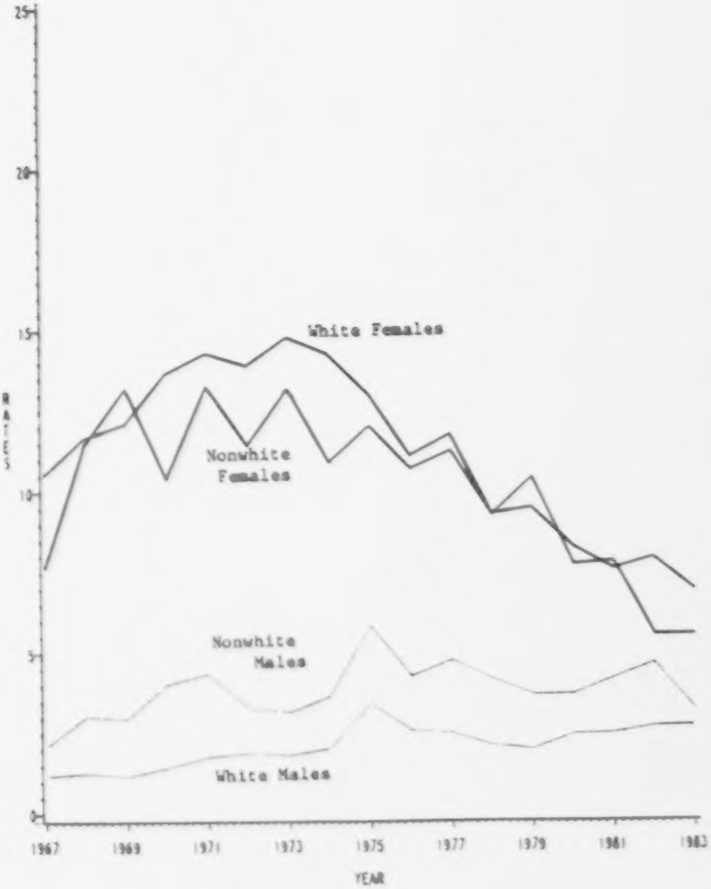


CHART 5.5. The Difference Between Market Income Poverty Rates and Post-Transfer Poverty Rates by Race and Sex: 1967 to 1983



4. Derivation of Distributions of Family Income Relative to Poverty Thresholds

Chart 5.6 shows the distribution of family income for families with children in 1983. The average family income was $25,283. The income class with the highest share of families was $20,000 to $25,000, and it accounted for 11.8 percent of families with children. About 54 percent of these families with children had cash family incomes lower than $20,000, while about 10 percent had cash family incomes above $50,000. About 1 percent had cash family incomes above $75,000.

For families with children, chart 5.7 shows the distribution of family income relative to the appropriate poverty thresholds in 1983. For example, a three-person family with cash income of $22,500 would have its family income divided by its poverty threshold ($8,280). This yields a ratio of 2.72, which is called the family "poverty ratio." About 54 percent of families with children had poverty ratios of no more than 2.72. If a family of three had cash income equal to its poverty threshold, its ratio would be $8,280 divided by $8,280 or one. This family would be located at the vertical line above one, which one might call the poverty line. Those families at or to the left of this line have ratios no more than one and are classified as poor. Those to the right of the line are not poor.

About 19.0 percent of families with children were at or to the left of the poverty line. Nearly 10 percent of families had family cash incomes exceeding 4.5 times their poverty thresholds. The income class with the highest share of families was between 2.0 and 2.5 times the poverty line, and it contained 12.3 percent of all families with children. Average family income equalled 2.5 times the poverty line.

CHART 5.6. The Distribution of Cash Family Income
Among Familes with Children: 1983

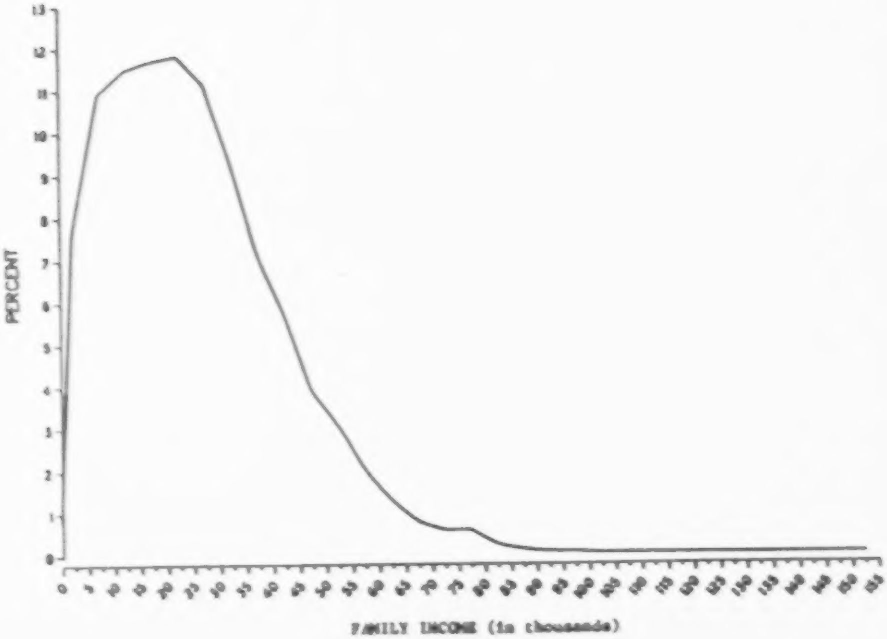
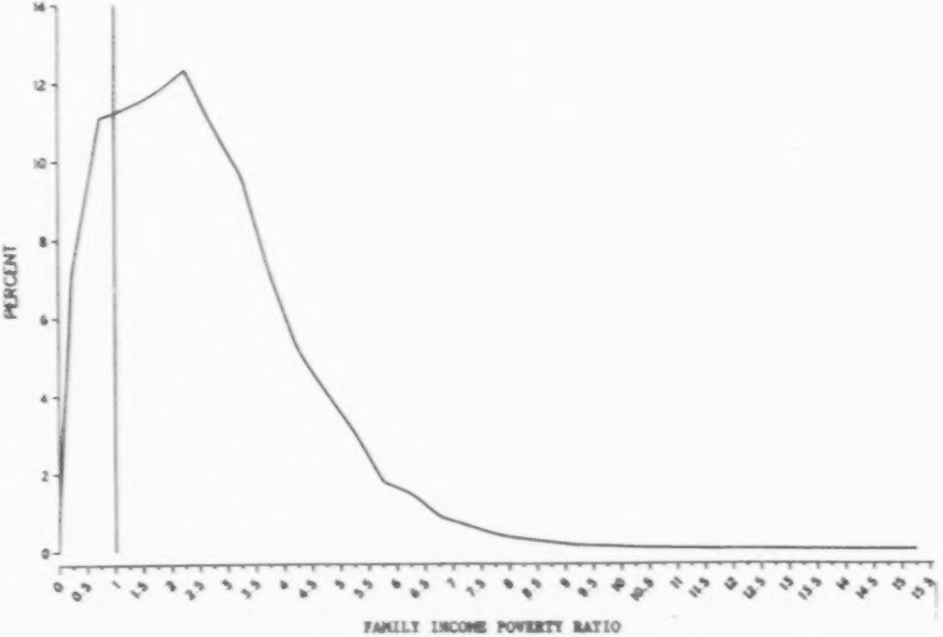


CHART 5.7. The Distribution of Family Income Poverty Ratios Among Families with Children: 1983



5. Trends in Distribution of Family Income/Poverty Ratios From 1968 Through 1983

Table 5–2 shows that the average poverty ratio rose from 2.48 in 1968 to 2.73 in 1979, and it then dropped to 2.48 in 1983.[5] The table also shows that the lowest fifth of families had an average poverty income ratio of 0.91 in 1968, compared with still lower ratios of 0.83 in 1979 and 0.60 in 1983. The average income/poverty ratio of the highest fifth of families was 8.0 times that of the lowest fifth in 1983. In 1968 the top fifth's average ratio was only 4.6 times that of the bottom fifth, and in 1979, this multiple was 5.9.

TABLE 5–2.—TRENDS IN AVERAGE FAMILY INCOME/POVERTY RATIOS BY LOWEST TO HIGHEST FIFTHS OF FAMILIES IN 1968, 1979, AND 1983

Year	Lowest fifth	Second fifth	Middle fifth	Fourth fifth	Top fifth	Average
1968	0.91	1.82	2.41	3.02	4.18	2.48
1979	.83	1.90	2.70	3.50	4.91	2.73
1983	.60	1.53	2.35	3.24	4.78	2.48

Table 5–3 presents trends in the distribution of poverty ratios for families with children from 1968 through 1983. In general, it shows that the distribution of family income/poverty ratios is more unequal than it was in 1968. In addition, after becoming somewhat more equal from 1975 through 1979, it became markedly more unequal after 1979.[6]

During the 1979–1983 period, families in the bottom two-fifths lost 2.6 percentage points to families in the upper one-fifth while the remainder maintained its share. Families in the bottom two-fifths had a share of 22.1 percent in 1969, but this dropped in 10 of the next 14 years and was only 17.1 percent in 1983. Slightly more than half of this 5.0 percentage point drop (or 2.6 percentage points) occurred after 1979. At the same time, families in the upper one-fifth gained 2.6 percentage points in their share, as it rose from 35.5 percent in 1979 to 38.1 percent in 1983.

A short analysis of the after-tax data available from the Census Bureau for 1979 through 1982 shows a similar pattern. The lower two-fifths lost 2.5 percentage points of its share of after-tax income while the upper one-fifth gained 2.1 percentage points. During this period, the share of the lower two-fifths dropped from 22.0 to 19.5 percent while the share of the upper fifth rose form 33.1 to 35.2 percent.[7]

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[5] As indicated earlier, more appropriate comparisons would be figures from years at the same stage of similar economic cycles. Unfortunately, our data do not cover a long enough period to do this and to study long-term trends, too.

[6] See Appendix F for a discussion of how these data were calculated and the measure of inequality that was used.

[7] The percent distributions of after-tax data by quintiles were:

	Lowest fifth	Second fifth	Third fifth	Fourth fifth	Highest fifth	Total
1979	7.2	14.8	19.9	24.9	33.1	100
1982	5.7	13.8	19.6	25.5	35.2	100

TABLE 5-3.—TRENDS IN THE DISTRIBUTION OF INCOME/POVERTY RATIOS FOR FAMILIES WITH CHILDREN FROM 1968 THROUGH 1983

Calendar year	Percentage shares of cash family incomes divided by the appropriate poverty thresholds that went to each fifth of total families with children					Total [1]
	Lowest fifth	Second fifth	Third fifth	Fourth fifth	Highest fifth	
1968	7.4	14.8	19.5	24.5	33.8	100
1969	7.4	14.7	19.6	24.6	33.7	100
1970	7.2	14.7	19.4	24.7	34.0	100
1971	7.0	14.5	19.5	24.7	34.4	100
1972	6.8	14.2	19.5	25.1	34.5	100
1973	6.8	14.4	19.5	25.0	34.4	100
1974	6.4	14.3	20.6	25.1	34.6	100
1975	6.3	13.9	19.6	25.3	34.9	100
1976	6.4	13.9	19.7	25.3	34.7	100
1977	6.1	13.7	19.5	25.5	35.2	100
1978	6.1	13.7	19.5	25.4	35.4	100
1979	6.0	13.7	19.5	25.3	35.5	100
1980	5.6	13.3	19.5	25.5	36.1	100
1981	5.4	13.0	19.4	25.8	36.5	100
1982	4.9	12.7	19.1	25.9	37.5	100
1983	4.8	12.3	18.9	26.0	38.1	100

[1] Figures may not add exactly because of rounding.

Sources: March Current Population Surveys for 1969 through 1984. See Appendix F for an explanation of how these figures were calculated.

6. Trends in Average Family Income Poverty Ratios From 1968 Through 1983

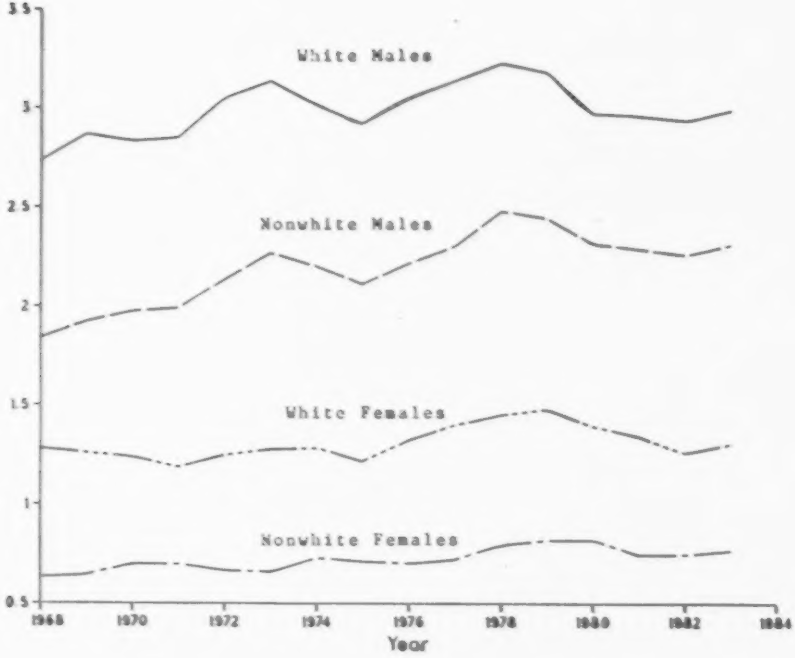
This section examines the trends in average family income poverty ratios for families with children. Average market income poverty ratios peaked for male-headed families in 1978 and in 1979 and 1980 for white and nonwhite female-headed families, respectively. The cash transfers to females heading families with children outstripped the inflation-induced growth in their poverty thresholds in the late 1960s and early 1970s, but a sharp decline in real cash transfers began in the mid-1970s and continued unabated through 1983.

MARKET INCOME POVERTY RATIOS

Chart 5.8 shows that average market income/poverty ratios were much higher for whites than for nonwhites and for males than for females. In 1983, for example, the figures for nonwhite female-headed families, white female-headed families, and nonwhite male-headed families were only 26, 44, and 77 percent of the figure for white male-headed families, respectively.

At their peak levels in 1978, average incomes for white and nonwhite male-headed families equalled 3.22 and 2.48, respectively, times their poverty thresholds. Market income/poverty ratios for white females peaked at 1.48 in 1979 and for nonwhite females at 0.82 in 1980. Thus, even at their highest point, nonwhite female-headed families had mean market incomes that were 18 percent below their poverty lines.

CHART 5.8. Market Family Income Poverty Ratios Among Families with Children by Race and Sex: 1968 to 1983



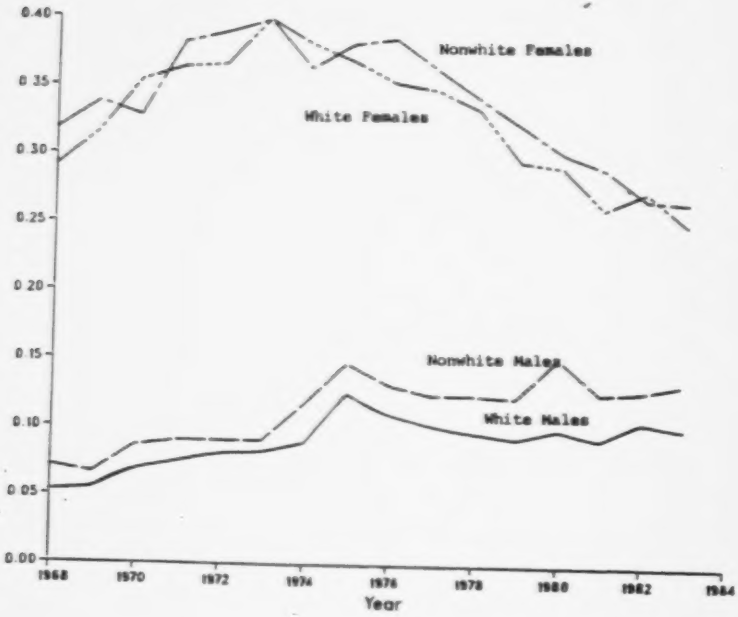
CASH TRANSFER POVERTY RATIOS

The poverty ratio, which measures income relative to the official measure of need, the poverty threshold, can also be used to assess the relative adequacy of cash transfers. The cash transfer poverty ratio is obtained by dividing a family's cash transfers by the appropriate poverty threshold.

Chart 5.9 shows that the average cash transfer poverty ratios were much higher for female-headed families with children than for male-headed families with children and remarkably similar for whites than nonwhites. As one would expect, females had much higher cash tranfers relative to their poverty thresholds than men. These trends also show the effect of the increases in real cash transfers from the late 1960s and early 1970s and of their steep decline from the mid-1970s to the 1980s. The ratio for nonwhite females, for example, went from 0.29 in 1968 to a peak of 0.40 in 1973, and then it declined to a new low point during this period of 0.25 in 1983. White females had a comparable pattern, and they, too, reached a new low for this period at 0.27 in 1983.

Much like the patterns for women, the mean ratios for male-headed families with children also grew in the late 1960s and early 1970s. However, the men did not experience the steep decline after the mid-1970s. This probably occurred because men qualify for social insurance benefits more often than women. Since social security is indexed for inflation and unemployment compensation benefits increase with nominal wages, which in turn tend to rise with inflation, the cash transfers to male-headed families with children would not have suffered the decline in purchasing power experienced by the predominately female recipients of cash welfare.

CHART 5.9. Mean Cash Transfer Family Income Poverty Ratios Among Families With Children By Race and Sex: 1968 to 1983



7. Changes in Poverty Rates, Mean Incomes, and Distributions of Income

This section provides the results of an analysis, performed by Peter Gottshalk, Associate Professor of Economics at Bowdon College, which breaks down the trends in poverty rates of families with children from 1968 through 1983 into changes stemming from these factors: (1) changes in mean market income relative to poverty (market income poverty ratios); (2) changes in mean cash transfer income relative to poverty (cash transfer poverty ratios); and (3) changes in a measure of the inequality of the distribution of total cash income relative to poverty. The measures used in this analysis are set forth in Appendix F. In general, the analysis shows that despite growth in mean market incomes relative to poverty, growing inequality of total income among families with children has resulted in higher poverty rates.

Poverty rates can change as a result of a change in the mean level of market or cash transfer income poverty ratios or a change in a the distribution of this variable. For example, if real total cash family income incrased by three percent for every family, the poverty rate would decline because some families with real total cash family income just below their poverty lines would move above their thresholds. However, if this three percent gain went only to non-poor families, the poverty rate would not change even though mean income would increase.

NET CHANGES FROM 1968 THROUGH 1983

NONWHITE MEN

The poverty rate of nonwhite males dropped during this period from 23.4 to 20.6 percent for a net change of −2.8 percentage points. Table 5–4 shows that if all nonwhite males had experienced the average increase in nonwhite male market income/poverty ratios, their poverty rates would have declined by 37 percent or by 8.6 percentage points. This would have yielded a 1983 poverty rate of 14.8 percent. However, an increase in the inequality of total cash income relative to poverty among nonwhite men led to an increase in the poverty rate of 8.0 percentage points. The remaining reduction of 0.6 percentage points, coupled with the 2.2 percentage point drop in the poverty rate attributed to increases in the mean cash transfer poverty ratio yielded the net change of −2.8 percentage points in the rate of poverty.

NONWHITE WOMEN

Nonwhite female heads also experienced a substantial net change in their poverty rate of −2.5 percentage points. The sole source of their drop in poverty, unlike that of nonwhite men, was a 6.5 percentage point change attributable to gains in the mean market income poverty ratio. Reductions in their mean cash transfer poverty ratio and an increase in the inequality of the total cash income poverty ratio among them offset their average market income gains by a combined 4.0 percentage points. This left the net change in their poverty rate at −2.5 percentage points.

WHITE MEN AND WOMEN

The major difference between whites and nonwhites in table 5-4 is that poverty rates increased for whites, but decreased for nonwhites between 1968 and 1983. The +3.8 percentage point change in the poverty rate for white male heads resulted from a 5.9 percentage point increase attributed to greater inequality in the distribution of total cash income relative to poverty among them, which was offset by 2.1 percentage point decline attributed to gains in mean market and cash transfer income poverty ratios.

The net change of +3.7 percentage points in the poverty rate for white female heads, unlike the rise in poverty rate for white men, was attributable not only to an increase in inequality of income among white females, but also to a drop in mean cash transfer income poverty ratios. These two factors would have increased the white female head poverty rate by 4.4 percentage points if they had not been offset by an 0.8 percentage point drop attributed to a gain in mean market income poverty ratios.

TABLE 5-4.—PERCENTAGE POINT CHANGES IN THE RATE OF POVERTY FOR FAMILIES WITH CHILDREN FROM 1968 THROUGH 1983

Head of family by sex/race	Percentage point changes in the rate of poverty because of changes in—						
	Mean market income/poverty thresholds	+	Mean cash transfer/poverty thresholds	+	Inequality of total income poverty thresholds	=	Net change in rate of poverty
Males:							
Nonwhite	−8.6		−2.2		8.0		−2.8
White	−1.6		−0.5		5.9		3.8
Females:							
Nonwhite	−6.5		2.9		1.1		−2.5
White	−0.8		2.3		2.1		3.7

CHANGES IN SUB-PERIODS, 1968-1983

A further analysis determined when these changes in poverty rates occurred. Time periods were broken down into four equal subperiods: 1968-1971, 1972-1975, 1976-1979, and 1980-1983.[8] Table 5-5 shows the detailed results.

In general, the detailed results indicate that:

—The net change of −2.8 percentage points in the poverty rate of nonwhite male heads primarily occurred because of substantial gains in mean market income relative to poverty from 1968 through 1979 that were offset by increases in the inequality of total cash income relative to poverty in the 1968–1971 and 1980–1983 periods.

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[8] Cyclical conditions had different effects in these time periods. For example, the frequency of recessions varied, as follows: 1968-1971 and 1972-1975 subperiods, one recession each; and 1976-1979 subperiod, no recession; 1980-1983 subperiod, two recessions. The analysis does not distinguish these cyclical differences from secular ones.

—The net change of −2.5 percentage points in the poverty rate of nonwhite female heads mainly occurred because of increases in mean market income poverty ratios from 1968 to 1980. Their poverty rate reductions attributed to increased mean cash transfer poverty ratios in the 1968–1971 period were more than offset by poverty rate increases stemming from the decline in mean cash transfer poverty ratios in 1976 through 1983.

—The net change of +3.8 percentage points in the poverty rate of white males resulted mainly from increasing inequality of the distribution of their total cash income relative to poverty over the entire period.

—Data problems did not permit a subperiod breakdown for the 3.7 percentage point increase in the poverty rate for white females. As stated earlier, their increase resulted from a decline in their mean cash transfer poverty ratio and to an increase in inequality of total cash income relative to their poverty thresholds.

TABLE 5–5.—PERCENTAGE POINT CHANGES IN THE RATE OF POVERTY AMONG FAMILIES WITH CHILDREN FROM 1968 THROUGH 1983

	Percentage point changes in poverty rates			
	Male		Female	
	Nonwhite	White	Nonwhite	White
Total change in poverty rate	−2.8	3.8	−2.5	3.7
Total change in poverty by subperiods:				
1968 to 1971	−3.8	−.8	−1.4	na
1972 to 1975	−3.5	.3	−3.7	na
1976 to 1979	0	1.6	−2.4	na
1980 to 1983	4.5	2.7	5.0	na
Change in poverty rate because of:				
Changes in mean market income divided by poverty thresholds:				
1968 to 1983	−8.6	−1.6	−6.5	−.8
1968 to 1971	−6.1	−1.9	−1.7	−1.4
1972 to 1975	−1.3	0	−1.4	na
1976 to 1979	−1.3	.4	−5.9	na
1980 to 1983	.1	−.1	2.5	na
Changes in mean cash transfers divided by poverty thresholds:				
1968 to 1983	−2.2	−.5	2.9	2.3
1968 to 1971	−.7	−.3	−4.5	−4.3
1972 to 1975	−1.3	−.4	.2	na
1976 to 1979	−.6	.2	4.9	na
1980 to 1983	.4	0	2.3	na

TABLE 5-5.—PERCENTAGE POINT CHANGES IN THE RATE OF POVERTY AMONG FAMILIES WITH CHILDREN FROM 1968 THROUGH 1983—Continued

	Percentage point changes in poverty rates			
	Male		Female	
	Nonwhite	White	Nonwhite	White
Changes in inequality of the distribution of total income divided by poverty thresholds:				
1968 to 1983	8.0	5.9	1.1	2.1
1968 to 1971	3.0	1.4	4.8	1.0
1972 to 1975	−.9	.7	−2.5	na
1976 to 1979	1.9	1.0	−1.4	na
1980 to 1983	4.0	2.8	.2	na

The letters "na" mean not available.

8. Simulations of Future Poverty Rates

This section presents an extension of the historical analysis in the preceding section. In this analysis, Professor Gottshalk simulated the effect of economic growth on poverty rates. He assumed that mean cash transfer income poverty ratios and the measure of inequality of the total cash income distribution relative to poverty would not change in the future. He then asked these questions for nonwhite male- and female-headed families with children and white male-headed families with children: [9]

—If average market income poverty ratios grew by two or three percent per year for all families from 1983 to 1988, what would be the poverty rates in 1988?

—If average market income poverty grew at two or three percent indefinitely for all families, how long would it take for each group to reach the poverty rate they had in 1979?

Table 5-6 summarizes the results. For nonwhite male heads the poverty rate would drop from 20.6 percent in 1983 to 18.7 or 17.8 in 1988 under the two or three percent growth rates, respectively. For nonwhite female heads the poverty rate would drop from 63.3 percent in 1983 to 59.9 or 58.0 percent in 1988 under the two or three percent growth rates, respectively. For white males, the poverty rate would drop from 10.4 percent in 1983 to 8.9 or 8.2 percent in 1988, respectively.

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[9] Data limitations did not permit estimates for white female-headed families with children.

TABLE 5-6.—SIMULATED POVERTY RATES IN THE FUTURE

	Heads of families with children		
	Males		Females, nonwhite
	White	Nonwhite	
Actual post-transfer poverty rates:			
1979	6.1	14.9	57.4
1983	10.4	20.6	63.3
Simulated post-transfer poverty rates in 1988:[1]			
2 percent growth rate [2]	8.9	18.7	59.9
3 percent growth rate	8.2	17.8	58.0
Number of years to reach 1979 post-transfer poverty rate:			
2 percent growth rate	18	18	8
3 percent growth rate	12	12	5

[1] Assumes that the means of cash transfer incomes relative to the appropriate poverty thresholds and the inequality of the distribution to total cash income relative to the appropriate poverty thresholds do not change.

[2] Growth rates are for the means of market incomes relative to the poverty thresholds.

Partly because the poverty rates of male-headed families with children were so high in 1983 relative to 1979 and because recent increases in inequality were so large, it takes a long time in these simulations for the males to return to their 1979 levels. For white and nonwhite male heads, the simulations show 18 or 12 years under the two or three percent growth rates, respectively, to reach their 1979 poverty rates of 6.1 and 14.9 percent, respectively. For nonwhite female heads of families with children, the time periods are much shorter. After 8 or 5 years for the 2 or 3 percent growth rates, respectively, poverty rates reach 57.4 percent.

One should interpret and use these results cautiously for several reasons:

—The assumptions of equiproportionate growth rates of two or three percent in market income/poverty ratios are higher than recent experience. For example, a three percent growth rate in average market income/poverty ratios has not been reached since the 1960s. Moreover, the distribution of total income has been growing more unequal. As a result, the simulations might overestimate the poverty rate decreases in the future.

—The future may not resemble the recent past. For example, as the "baby boom" generation ages into the peak earnings years, the distribution of total cash income could become more equal if the earnings distribution becomes more equal. As a result, the simulations might underestimate the proverty rate decreases.

—With increasing pressure to cut Federal outlays, average cash transfer poverty ratios might decline. This would make lower poverty rates even harder to achieve.

CHAPTER VI. GOVERNMENT TRANSFER SPENDING: RELATIONSHIP TO POVERTY OF CHILDREN[*]

1. Introduction

The incidence of poverty among children climbed more than 50 percent from 1973 to 1983, and their poverty income deficit widened by $5.9 billion in constant 1983 dollars. This rise in child poverty occurred despite a real rise of $133 billion (83 percent) in Federal spending for income security.

The poverty rate of children rose in all but 2 years of the decade (1976 and 1978), but most of the growth took place in the second half, as was shown earlier.

Why did poverty of children rise in the face of higher overall Federal outlays on income security?

This chapter is devoted to answering this apparent paradox, and to examining how and to what extent children (and their families) are aided by basic programs providing social insurance, cash welfare, food stamps, Mediciaid, and subsidized housing.

Major findings of this chapter include:

—There is no paradox. Government spending for social insurance and cash welfare benefits to poor children, unlike overall income security outlays, declined in value from 1973 to 1983. Adjusted for price inflation, aggregate social insurance and cash welfare payments to children with insufficient market income (the market income poor) were about six percent smaller at the end of the decade than at the beginning. Furthermore, the population of such poor children grew about 30 percent. Hence, Government cash transfers per child in need of them fell significantly.

—The rise in the incidence and severity of market income-poverty of children during the decade was so large that real cash transfers would have had to rise substantially to compensate.

—The share of poor children served by AFDC and food stamps has declined. The number of AFDC children per 100 pre-welfare poor children decreased from 73 to 50 during the decade. The share of poor children who received food stamps in a survey month fell from 76 percent in 1978 to 69 percent in 1982. However, the share of poor children covered by Medicaid was unchanged from 1970 to 1983, at about one-half, and the share of poor households with children that received subsidized housing rose slightly from 1977 to 1981, when it was almost one out of six. In recent years both the food stamp program and Medicaid have concentrated more of their benefits on very poor children, those with income below 50 percent of the poverty threshold.

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[*] Vee Burke wrote parts 1–3, 5, and 9 of this chapter; Carmen D. Solomon wrote part 4; Joe Richardson parts 6 and 8; and Jennifer O'Sullivan and Joseph A. Cislowski, part 7. Richard Rimkunas prepared the computer graphs and complied many data tables.

—AFDC benefits declined. The maximum AFDC benefit of the median State (ranked by benefit level) fell about one-third from July 1971 to January 1985 in constant dollars. Some of the cash benefit loss was offset by food stamps. However, combined AFDC-food stamp benefits fell about one-fifth.

—Many States have increased their reliance on food stamps, which are 100 percent federally funded, as a supplement to AFDC cash. Food stamps now represent about one-third of combined maximum benefits from the two programs in the median AFDC State. In 1971 their corresponding share was about one-fifth.

—In 1983 an estimated $46.7 billion (Federal-State-local funds) were spent on basic welfare benefits plus social security for *children and/or families with children.* AFDC accounted for $13.8 billion ($7.5 billion Federal funds); Medicaid, $9 billion; social security, $10.5 billion; food stamps, $9.4 billion, and subsidized housing, $4 billion. Cash benefits for children and their families declined in real terms during the decade (15 percent decrease for AFDC and 19 percent for social security). Major non-cash outlays for children and their families (food stamps, subsidized housing, and Medicaid) increased sharply over the decade, but in the latter part of the period food and medical benefits did not keep pace with the rise in the number of poor families with children. See Table 6-35.

This chapter is organized as follows:

—Discussion of some of the reasons why higher income security outlays, even if directed at children, might not lower their poverty rates, nor narrow their poverty income gaps;

—Examination of trends in cash income transfers and food stamp benefits for children;

—Detailed account of the operation of AFDC, the primary cash welfare program for children, showing its relationship to poor children;

—Summary account of aid provided by social security to children and their parents;

—Summary accounts of three basic non-cash welfare programs and their help for children or families (households) with children—food stamps, Medicaid, and subsidized housing.

Five appendixes provide additional information about aid for children.

—Appendix A presents more details about the operation of AFDC, food stamps, Medicaid, and subsidized housing.

—Appendix B shows how an array of 22 other programs help some poor children by providing cash aid, energy aid, child nutrition, foster care, day care, medical services, and child support enforcement.

—Appendix C gives a history of Federal employment and training programs.

—Appendix D discusses AFDC and work.

—Appendix E presents a chronology of Congressional action on selected major income benefits for children (or families with children) from 1960 through 1984.

2. Why Didn't Child Poverty Decrease as Outlays for Social Programs Increased

History shows that higher outlays for income security may not reduce poverty rates of children or fill some of their poverty income deficits. Major reasons follow:

—Benefits untested for income. Most income security dollars are not income-tested; most are paid under social insurance programs and are not affected by the beneficiary's income. For example, 58 percent of Federal income security outlays in 1983 went to social security enrollees. Further, most of these benefits went to adults without dependent children.

—Uncounted benefits. Most income-tested transfers are not in the form of cash benefits and, thus, are not counted in the official poverty data. Most need-tested transfers go directly to vendors or providers of the service; or, as in the case of food stamps, are paid in non-cash form to the recipient. However, as was seen in chapter 2, poverty rose sharply among children from 1979–1983 even if food stamps, subsidized housing, and medical care are assigned a value and included in counted income of recipients.

—Exclusions from cash help. Many poor children are excluded from cash income transfers. This happens in two ways: first, by categorical limits, and, second, by sub-poverty income limits.

To receive social insurance benefits, such as a social security survivor's benefit or a dependent's allowance under Unemployment Insurance (offered only in a few States), a child must have a parent who earned coverage through work before becoming unemployed or disabled or before retiring or dying. To receive cash aid from AFDC, a needy child must be in a one-parent family, unless the second parent is disabled, unemployed, or "underemployed" (works fewer than 100 hours a month). In the latter case the jobless parent must be the principal earner and must have worked a specified minimum time in the past. Further, the family must live in one of the 25 jurisdictions that offer AFDC to Unemployed Parents (AFDC-UP).

Some poor children are excluded from income transfers by income limits. Families are ineligible for AFDC when counted income (earnings minus allowances plus unearned income) equals the State payment standard. These standards are below poverty thresholds in most States. Furthermore, gross income limits are under the poverty line for four persons in 24 States, for three persons in 18 States (January 1985).

—Benefits to nonpoor. Some welfare dollar go to families that are nonpoor. This can happen because of differences in "accounting" periods. Poverty status is calculated by the Census Bureau on the basis of annual income, but welfare programs aid people on the basis of their income needs in a shorter period, usually a month. A family that is needy for a part of the year and has low liquid assets can receive AFDC but later be recalled to work, leave AFDC, and complete the year with a total income above the poverty threshold.

Moreover, until Congress changed the law in late 1981 (Omnibus Budget Reconciliation Act, Public Law 97-35), a work incentive bonus in AFDC required States to phase out AFDC benefits gradually for recipients who increased their earnings. Working welfare mothers then were entitled to an AFDC supplement until gross wages were well above the State standard of need, and, in some relatively high benefit States, even after wages had lifted them out of poverty.

—Work reductions. Finally, transfers reduce need to work and cause some increase in market income poverty, according to several studies, as was noted in chapter 5. This means that it can require more than a dollar in transfer income to yield a net gain of one dollar to the recipient.

3. Trends in Cash Income Transfers and Food Stamp Benefits for Poor Children

Size of Transfers

SOCIAL INSURANCE

In constant 1983 dollars, aggregate social insurance benefits to poor children (primarily social security and unemployment insurance benefits) declined from $4.4 billion in 1973 to $4.1 billion in 1983 (after peaking at $4.7 billion in 1975 and falling to $3.2 billion in 1979), as Table 6-1 shows. (Excluded from the table are payments to parents, and to children and parents in families whose annual market income exceeded poverty thresholds.) The drop in aggregate benefits from 1973-1983 was 6 percent. But over the decade the number of pretransfer poor children increased by 3.7 million, or 30 percent. If the social insurance benefits had been evenly distributed among the children whose market income fell short of poverty, per capita benefits would have fallen from $357 in 1973 to $258 in 1983, a drop of 28 percent.

TABLE 6-1.—SOCIAL INSURANCE PAYMENTS FOR CHILDREN IN MARKET INCOME POVERTY

	Social insurance benefits to children (millions of 1983 dollars)	Number of children poor before transfers (thousands)	Social insurance benefits available per child (1983 dollars)
1973	$4,409	12,339	$357
1974	4,351	13,124	332
1975	4,712	14,460	326
1976	3,941	12,960	304
1977	3,825	12,948	295
1978	3,358	12,512	268
1979	3,153	12,447	253
1980	3,671	13,860	265
1981	3,814	14,851	257
1982	3,917	15,988	245
1983	4,139	16,039	258

Source: Estimates derived from the March Current Population Survey, 1974-1984. Reflects underreporting of income by respondents. Column 1 represents children's pro rata share of reported family benefits.

CASH WELFARE BENEFITS

The picture is similar for cash welfare benefits. In constant 1983 dollars, aggregate cash welfare benefits to pre-welfare poor children from Federal, State and local funds declined from $6.9 billion in 1973 to $6.5 billion in 1983. (Excluded from the table are the parents' share of such benefits, roughly estimated at $3.1 billion in 1983, and sums paid to children and parents in families whose annual cash income minus welfare benefits exceeded poverty.) The drop in aggregate cash benefits was 6 percent (as it was for social insurance). If these cash welfare benefits had been evenly distributed among the children whose pre-welfare income (market income plus social insurance) was below poverty, the per capita amounts would have dropped from $638 in 1973 to $452 in 1983, a decline of 29 percent. This is shown in Table 6-2.

TABLE 6-2.—CASH WELFARE BENEFITS FOR CHILDREN POOR BEFORE WELFARE

	Cash welfare benefits to children (millions of 1983 dollars)	Number of children poor before welfare (thousands)	Cash welfare benefits available per child (1983 dollars)
1973	$6,861	10,758	$638
1974	6,652	11,463	580
1975	6,550	12,237	535
1976	6,672	11,231	594
1977	6,897	10,843	636
1978	6,128	11,132	550
1979	5,793	11,086	523
1980	6,124	12,379	495
1981	6,072	13,274	457
1982	6,268	14,284	439
1983	6,472	14,306	452

Source: Estimates derived from the March Current Population Survey, 1974–1984. Reflects under-reporting of income by respondents. Column 1 represents children's pro rata share of reported family benefits.

FOOD STAMP BENEFITS

Food stamp benefits do not affect official poverty rates because they are not counted as income, but they increase the food buying power of those who receive them and, thus, relieve their money income poverty.

Unlike aggregate cash payments to children (social insurance and cash welfare), which declined six percent in real terms from 1973 to 1983, food stamp benefits to children rose by three-fourths from 1974 to 1983 in real terms (Table 6-3). The rise in children's food stamp benefits exceeded the increase in the number of poor children over this period, which amounted to 34 percent (3.8 million children). If the food stamp benefits had been evenly distributed among the poor children, per capita benefits would have risen from $340 in 1974 (in 1983 dollars) to $446 in 1983, an increase of 31 percent.

TABLE 6-3.—FOOD STAMP BENEFITS FOR POOR CHILDREN

	Food stamp benefits to children [1] (millions of 1983 dollars)	Number of children poor [2] (thousands)	Food stamp benefits available per child (1983 dollars)
1974 [3]	$3,390	9,967	$340
1975	4,865	10,882	447
1976	5,522	10,081	548
1977	4,887	10,028	487
1978	4,642	9,722	477
1979	4,488	9,993	449
1980	5,557	11,114	500
1981	5,893	12,068	488
1982	5,383	13,139	410
1983	5,950	13,326	446

[1] Estimates based on benefits for households with children. Excludes benefits for adults in the household, assumed to equal 31 percent of such household's benefits from 1974–1979; 35 percent in 1980 and 1981; 37 percent in 1982 and 1983.

[2] Number of related children in families poor after cash transfers. Excludes unrelated children.

[3] The first year shown is 1974 because the program was not nationwide in 1973.

TOTAL CASH AND FOOD STAMP BENEFITS

Table 6-4 presents estimated benefits available per poor child from social insurance programs, cash welfare benefits, and food stamps, in the period 1974-1983. It shows that total available benefits, relative to the number of poor children, peaked in 1976 and that 1983 total benefits were 20 percent below that peak, 8 percent below the 1974 level.

TABLE 6-4.—ESTIMATED BENEFITS AVAILABLE PER POOR CHILD, 1974–83

[1983 dollars]

	Social insurance payments [1]	Cash welfare benefits [2]	Food stamps [3]	Total benefits
1973	$357	$638	(4)	n.a.
1974	332	580	$340	$1,252
1975	326	535	447	1,308
1976	304	594	548	1,446
1977	295	636	487	1,418
1978	268	550	447	1,295
1979	253	523	449	1,225
1980	265	495	500	1,260
1981	257	457	488	1,202
1982	245	439	410	1,094
1983	258	452	446	1,156

[1] Per child poor before government payments.

[2] Per child poor after social insurance payments.

[3] Per child poor after cash transfers.

[4] Program was not nationwide in that year.

TRANSFERS' IMPACT ON POVERTY RATES

From 1973 to 1983 the proportion of children in families whose market income was below their poverty threshold climbed 40 percent. The share of children poor after social insurance rose 44 percent, however, and the share poor after all transfers increased even more sharply, by 52 percent. The disproportionate rise in final money income poverty reflects a smaller impact of transfers upon poverty rates. Table 6-5 presents the market income, pre-welfare, and post-transfer money income poverty rates for children from 1973 to 1983.

TABLE 6-5.—POVERTY RATES FOR ALL CHILDREN UNDER 18 BY SOURCE OF INCOME, 1972-83

Year	Market income poverty rate [1]	Pre-welfare poverty rate [2]	Post-transfer poverty rate [3] (official measure)
1972	18.9	16.8	15.2
1973	18.4	16.0	14.4
1974	19.8	17.3	15.7
1975	22.2	18.9	17.0
1976	20.3	17.5	16.0
1977	20.5	17.9	16.2
1978	20.0	17.8	16.3
1979	20.2	18.0	16.4
1980	22.0	19.7	18.4
1981	23.8	21.3	20.0
1982	25.6	22.9	21.9
1983	25.8	23.0	22.2

[1] Includes income from sources such as earnings, dividends, interest, private and public pensions, alimony and child support.

[2] In addition to all the income contained in the market income category, includes benefits from Social Security, Railroad Retirement, Unemployment Compensation, Workman's Compensation, and Veteran's benefits.

[3] In addition to all the income in column 2, includes cash welfare benefits.

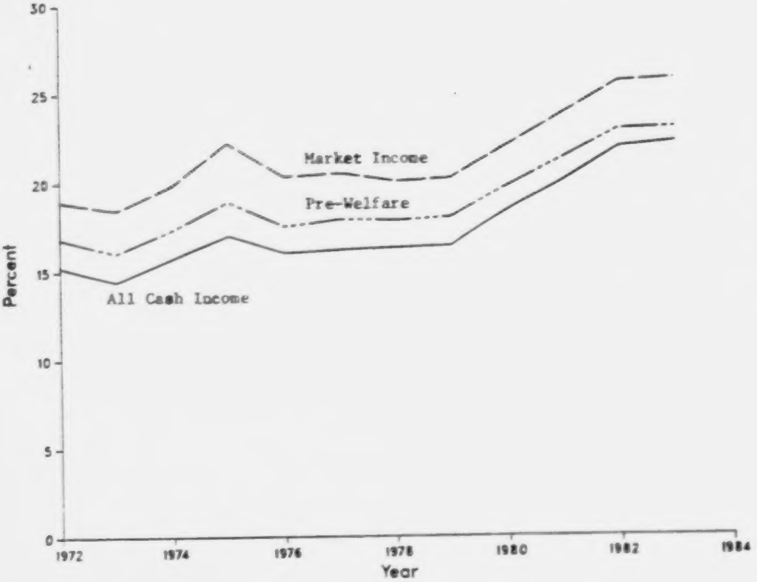
Note.—Table prepared by Congressional Research Service.

Source: Estimates derived from the March Current Population Survey, 1973-1984.

Together social insurance and cash welfare transfers in 1973 reduced the poverty rate of children from a market income level of 18.4 percent to a post-transfer level of 14.4 percent. This was a reduction of 21.7 percent. In contrast, the combined impact of social insurance and cash welfare payments in 1983 lowered the poverty rate by only 14 percent (from 25.8 percent before transfers to 22.2 percent after them). If transfers in 1983 had achieved the same relative poverty reduction as in 1973, there would have been about 1.2 million fewer poor children in 1983. Chart 6.1 shows that the gap between market income poverty rates and post-transfer poverty rates of children has narrowed, expecially since 1978. Charts 5.3 and 5.4 (chapter V) provide corresponding poverty rates for females and males heading families with children, by race, 1967–1983.

CHART 6.1

Poverty Rates for All Children
by Source of Income : 1972 – 1983



TRANSFERS' IMPACT ON POVERTY INCOME DEFICIT

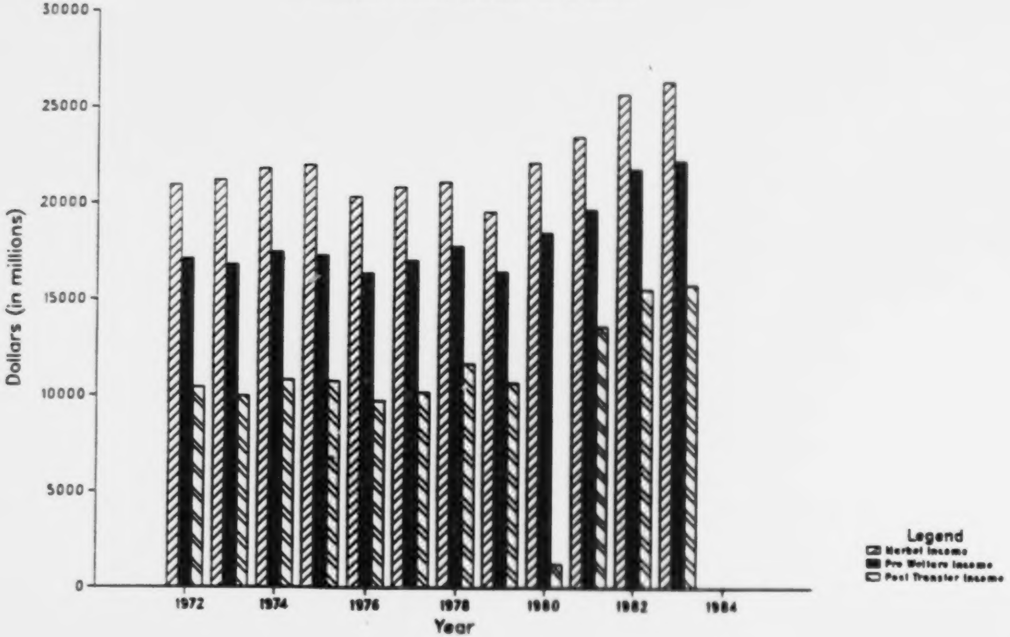
In 1973 market income available for children fell short of their poverty thresholds by $21.2 billion dollars (constant 1983 dollars). In 1983 the market income poverty deficit of children climbed to $26.5 billion. Thus, the pre-transfer gap widened by $5.3 billion.

Social insurance and welfare benefits, which had reduced the 1973 income gap of poor children by $11.2 billion, contributed only $10.6 billion (constant 1983 dollars) to reducing the larger 1983 deficit. As a result, the post-transfer deficit rose $.6 billion above its 1973 level, to $15.9 billion.

Chart 6.2 displays this. The first vertical bar shows the amount by which market income for children fell short of their poverty threshold, year by year. The black bar shows the income deficit remaining after social insurance, and the third bar shows the final money income deficit remaining after all cash transfers. (Support data for this chart and others in the report are in Appendix I.)

CHART 6.2

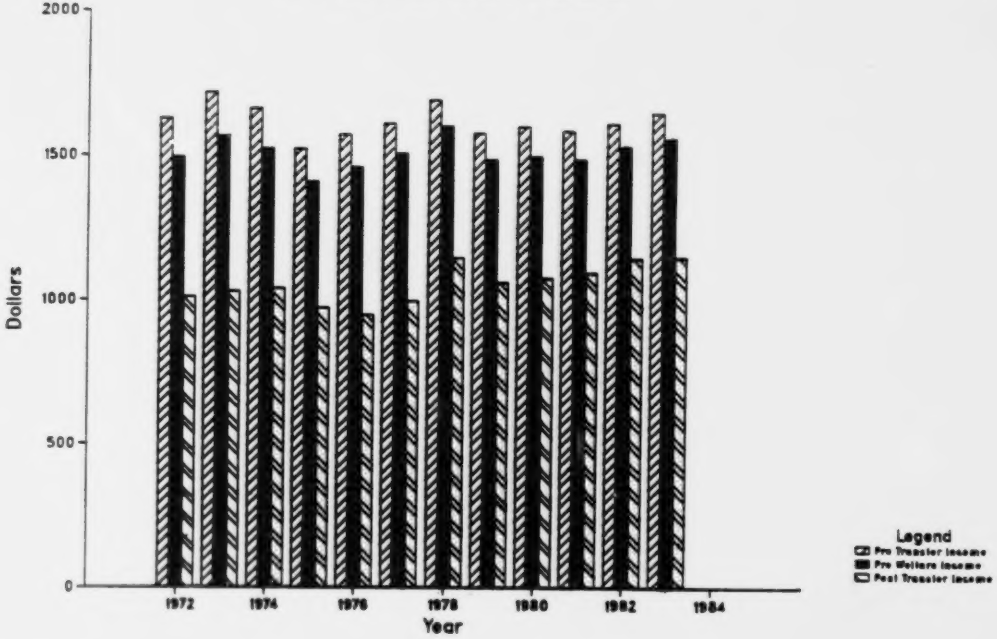
Aggregate Income Deficit for All Children by Source of Income : 1972 – 1983 in Constant 1983 Dollars



The general rise in children's poverty income gap over the decade reflected a rise in the number of poor children. Because of that increase, the per capita income deficit of children before transfers declined from $1,720 in 1973 to $1,651 in 1983 (constant 1983 dollar), a drop of 4 percent. Because of the relative shrinkage in cash welfare benefits, however, the per capita money income deficit left after money transfers increased during the decade, climbing from $1,032 to $1,149, an increase of 11 percent. Chart 6.3 plots the course of the per capita income deficit of children from 1969 to 1983.

CHART 6.3

Per Capita Income Deficit for All Children by Source of Income : 1972 – 1983 in Constant 1983 Dollars



4. Aid to Families With Dependent Children (AFDC) and Poor Children

Introduction

The AFDC program differs substantially by State in the benefit standards it uses and the share of poor children it aids. No State links its need or payment standards to poverty thresholds. Indeed, only one State, Alaska, pays maximum benefits that are higher than poverty threshold amounts. In all of the other States and jurisdictions persons with no countable income still would be considered poor after receipt of AFDC benefits. In fact, in 11 of the 54 jurisdictions with AFDC programs (January 1985), a three-person family with earnings 25 percent below the poverty threshold would be automatically disqualified from AFDC assistance. In the other 43 jurisdictions some such families also would be denied AFDC benefits because of program rules regarding treatment of earnings. Further, these families also would generally be ineligible for Medicaid, which links its eligibility limits to those of AFDC. Most of these families would qualify for some food stamps.

The number of AFDC recipients was roughly 1 million in 1940, 2 million in 1950, 3 million in 1960, 8½ million in 1970, over 10 million in 1971, and more than 11 million in 1975. Between 1960 and 1975, the size of the AFDC population almost quadrupled (see Table 6-6). The AFDC rolls dropped to 10.3 million persons in 1979, increased to over 11 million in 1981 and dropped to 10.4 million in 1982. In 1983, there were 10.7 million AFDC recipients.

TABLE 6-6.—AFDC: AVERAGE MONTHLY NUMBER OF RECIPIENTS, TOTAL AMOUNT OF CASH PAYMENTS, AND AVERAGE MONTHLY PAYMENT, 1936–83

Calendar year	Average monthly number of recipients (in thousands)			Amount of payments			Constant 1983 dollars		
				Total (in thousands)	Monthly average per—		Total (in thousands)	Monthly average per—	
	Families	Total	Children		Family	Recipient		Family	Recipient
1936	147	534	361	$49,678	$28.15	$7.75	$357,203	$202.41	$55.73
1940	349	1,182	840	133,770	31.98	9.43	950,404	227.21	67.00
1945	259	907	656	149,667	48.18	13.75	828,583	266.73	76.12
1950	644	2,205	1,637	551,653	71.33	17.64	2,283,124	295.21	73.01
1955	612	2,214	1,673	617,841	84.17	23.26	2,298,800	313.17	86.54
1960	787	3,005	2,314	1,000,784	105.75	27.75	3,366,786	355.76	93.36
1961	869	3,354	2,587	1,156,769	110.97	28.74	3,852,454	369.57	95.71
1962	931	3,676	2,818	1,298,774	116.30	29.44	4,277,640	383.05	96.96
1963	947	3,876	2,909	1,365,851	120.19	29.36	4,444,601	391.11	95.54
1964	992	4,118	3,091	1,510,352	126.88	30.57	4,851,335	407.55	98.19
1965	1,039	4,329	3,256	1,660,186	133.20	31.96	5,242,323	420.60	100.92
1966	1,088	4,513	3,411	1,863,925	142.83	34.42	5,722,173	438.48	105.67
1967	1,217	5,014	3,771	2,266,400	155.19	37.67	6,762,938	463.09	112.41
1968	1,410	5,705	4,275	2,849,298	168.41	41.62	8,159,602	482.28	119.19
1969	1,698	6,706	4,985	3,563,427	174.89	44.28	9,684,213	475.29	120.34
1970	2,208	8,466	6,214	4,852,964	183.13	47.77	12,451,629	469.87	122.57
1971	2,762	10,241	7,434	6,203,528	187.16	50.48	15,260,781	460.42	124.18
1972	3,049	10,947	7,905	6,909,260	188.87	52.60	16,454,295	449.79	125.27
1973	3,148	10,949	7,902	7,212,035	190.91	54.89	16,168,830	428.01	123.06
1974	3,230	10,864	7,822	7,916,563	204.27	60.72	15,993,923	412.69	122.67

1975	3,498	11,346	8,095	9,210,995	219.44	67.65	17,050,626	406.21	125.23
1976	3,579	11,304	8,001	10,140,543	236.10	74.75	17,747,437	413.21	130.82
1977	3,588	11,050	7,773	10,603,820	246.27	79.97	17,433,498	404.89	131.48
1978	3,522	10,570	7,402	10,730,415	253.89	84.60	16,386,673	387.72	129.19
1979	3,509	10,312	7,179	11,068,864	262.86	89.45	15,192,958	360.80	122.78
1980	3,712	10,774	7,419	12,475,245	280.03	96.49	15,083,522	338.58	116.66
1981	3,835	11,079	7,527	12,981,115	282.04	97.64	14,220,135	308.96	106.96
1982	3,542	10,358	6,903	12,877,905	303.02	103.60	13,292,172	312.77	106.93
1983	3,671	10,737	[1] 7,106	13,812,699	312.88	107.20	13,812,699	312.88	107.20

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[1] Based on January–June 1983 average.

Note.—During the period 1935–38, a child had to be under age 16 to qualify for AFDC benefits. From 1939–63, a child had to be under age 18 to qualify for AFDC. But for the 16 year period, 1964–80, a child under age 21 meeting the program requirements could qualify for AFDC. Since 1981, a child must be under 18, or 19 at State option, to qualify for AFDC.

Source: Social Security Bulletin, Statistical Supplement, 1983.

As the AFDC caseload expanded, so, too, did the cost of the program. Cash payments to recipients climbed from $357 million in 1936 to almost $14 billion in 1983 (constant 1983 dollars, see Table 6-6). The constant dollar data further show that AFDC payments decreased steadily from a high of $17.7 billion in 1976 to $13.3 billion in 1982, and then rose to $13.8 billion in 1983. The average AFDC payment of $107.20 per recipient in 1983 was at its lowest level, in real terms, since 1966.

A constant (January 1985) dollar analysis of the maximum AFDC benefit shows that the medium State's maximum AFDC benefit for a four-person family rose from $552 in 1960 to $599 in 1970; dropped to $514 in 1975, to $446 in 1980, and to $379 in 1985. This represents a 31 percent decrease in benefits since 1960; and a 37 percent decrease in benefits since 1970.

TABLE 6-7.—AFDC FAMILIES AND POOR FAMILIES, 1960-83

[In thousands]

	AFDC families	Poor families with related children under 18	AFDC families per 100 poor families with related children under 18
1960	787	5,328	14.8
1961	869	5,500	15.8
1962	931	5,460	17.1
1963	947	4,991	19.0
1964	992	4,771	20.8
1965	1,039	4,379	23.7
1966	1,088	3,734	29.1
1967	1,217	3,586	33.9
1968	1,410	3,347	42.1
1969	1,698	3,226	52.6
1970	2,208	3,491	63.2
1971	2,762	3,682	75.0
1972	3,049	3,621	84.2
1973	3,148	3,520	89.4
1974	3,230	3,875	83.4
1975	3,498	4,172	83.8
1976	3,579	4,060	88.2
1977	3,588	4,082	87.9
1978	3,522	4,060	86.7
1979	3,509	3,955	88.7
1980	3,712	4,822	77.0
1981	3,835	5,191	73.9
1982	3,542	5,712	62.0
1983	3,679	5,849	62.9

Sources: U.S. Department of Commerce. Bureau of the Census. Characteristics of Population Below Poverty Level. Series P-60, various years.

U.S. Department of Commerce. Bureau of the Census. Poverty in the United States, 1959-68. P-60. No. 68.

U.S. Department of Health and Human Services. Social Security Administration. Social Security Bulletin, Annual Statistical Supplement, 1983.

Although there is no direct link between AFDC benefit payments and poverty levels, there is a high association between numbers of AFDC families and poor families. As Table 6-7 shows, the number of AFDC families per 100 poor families rose continuously from 14.8 in 1960 to 89.4 in 1973. It remained above 80 AFDC families per 100 poor families through 1979. The rate dropped 30 percent over the next 3 years to 62. In 1983, there were 63 AFDC families for every 100 poor families. (See charts 6.4 and 6.5.)

Between 1961 and 1979 (the latest year for which the data are available) the rate of AFDC recipiency among white children climbed from 2.2 per 100 children to a peak of 7.4 in 1977 and dropped to 6.9 in 1979. For black children the rate climbed from 13.6 children per 100 in 1961 to a peak of 39.8 in 1975 and declined to 35.3 in 1979. Over the 18-year period, 1961-1979, the rate climbed 214 percent for white children, but 160 percent for black children. Thus, the gap in use of AFDC by the races narrowed. In 1961, a black child was six times as likely to be on AFDC as a white child; in 1979 a black child was five times as likely to be on AFDC.

This part of the paper examines the AFDC program and its relationship to the poverty of children. The analysis examines the AFDC program's effectiveness in removing children and their families from poverty.

CHART 6.4

AFDC Families per 100 Families with Children in Poverty
1960 – 1983

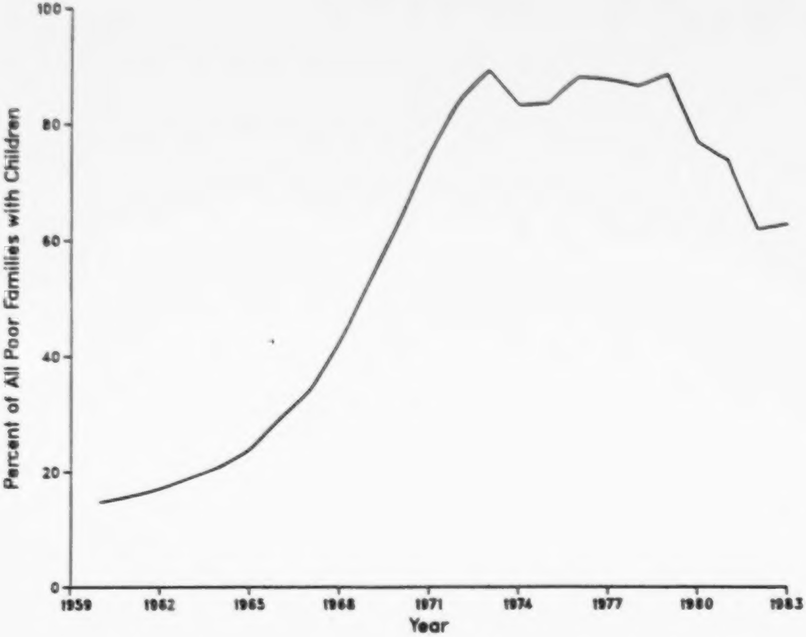
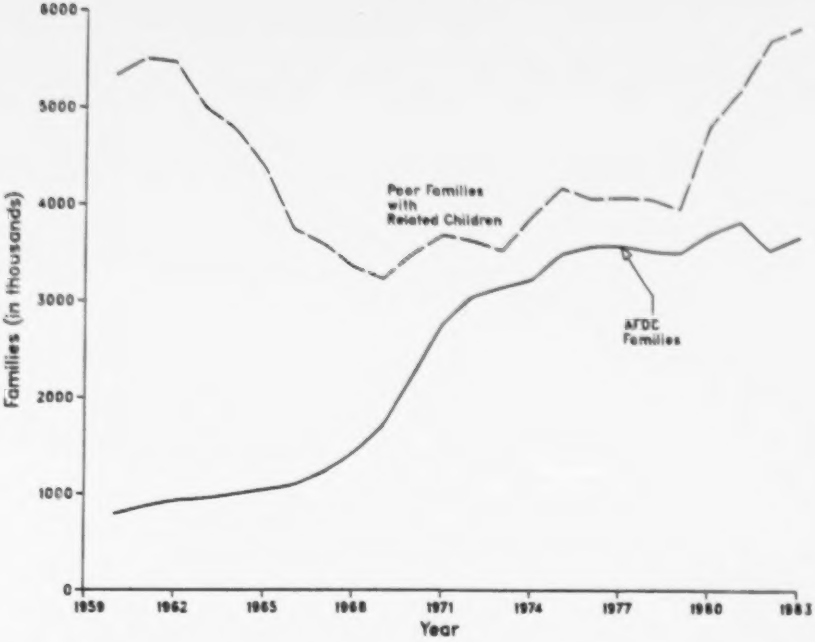


CHART 6.3

AFDC Families and Poor Families with Related Children
1960 –1983



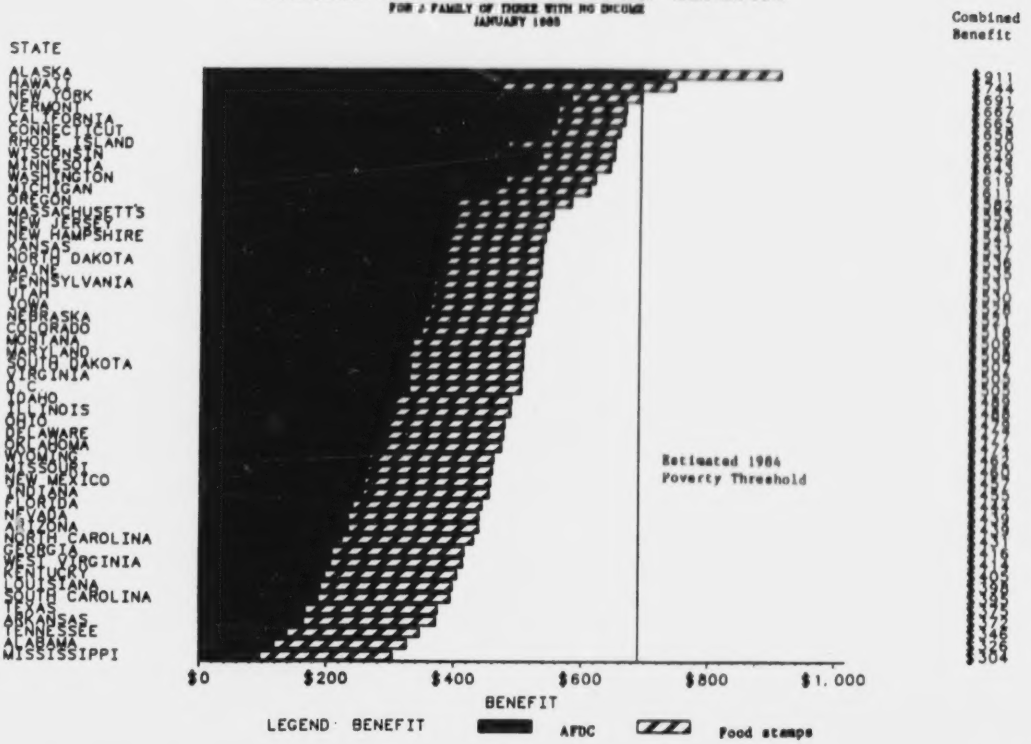
AFDC AND POVERTY OF CHILDREN

The 1984 poverty threshold is $8,280 for a family of three and $10,610 for a family of four. These amounts apply throughout the 48 contiguous States. In contrast, the AFDC payment levels, which vary widely, are established by each State within the general framework of eligibility rules set by the Federal Government. One such Federal rule concerns gross income eligibility limits. The Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) imposed a gross income test for AFDC eligibility of 150 percent of a State's need standard. The Deficit Reduction Act of 1984 (P.L. 98-369) increased the limit to 185 percent of a State's need standard. Thus, AFDC benefits are limited to families with gross incomes at or below 185 percent of the State's standard of need. The variation in State standards is substantial even after taking into account food stamps, which are based on a national standard and which serve to moderate the differences in total benefit levels. As a result, in some States combined AFDC and food stamp benefits may bring income close to, or even above the poverty level, but in most States even combined maximum benefits are significantly below the poverty thresholds. Chart 6.6 shows State-by-State combined AFDC and food stamp benefits, as of January 1, 1985, for a family of three with no other income. The chart shows that food stamp benefits rise as AFDC benefits fall, except in Alaska and Hawaii (where food stamp benefit schedules are more liberal) and in such States as Oregon (which designated some of its AFDC cash grant as energy aid that must be ignored by the food stamp program).

CHART 6.6

COMBINED AFDC AND FOOD STAMP BENEFITS

FOR A FAMILY OF THREE WITH NO INCOME
JANUARY 1985



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BENEFITS LEVELS AND POVERTY

States decide how much money families need (AFDC need standards) and how much to pay those without countable income (AFDC maximum benefits, or "guarantee levels"). As of January 1985, 32 of the 54 jurisdictions (50 States, District of Columbia, Guam, Puerto Rico, and Virgin Islands) paid families less than the States say they need; and no State linked its need standards or maximum benefits to poverty thresholds. Maximum benefits were below poverty thresholds[1] for all family sizes in all jurisdictions except Alaska, which had above-poverty guarantees for two- and three-person families.[2] In 44 jurisdictions State guarantees were at least one-third below 1984 poverty thresholds.

Maximum benefits for a family of four in January 1985 ranged from $120 in Mississippi ($93.16 paid by the U.S.) to $800 in Alaska ($400 paid by the U.S.). The maximum benefit of the median State for four persons was $379, 43 percent of the 1984 poverty threshold of $884. The maximum benefit of the median State for three persons was $327, which is 47 percent of the 1984 three-person poverty threshold of $690. See Tables 6-8 and 6-9.

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[1] Throughout this section references to poverty thresholds are to those of the previous year unless otherwise noted.

[2] The food stamp program uses a higher poverty indicator for Alaska and Hawaii than the Census Bureau threshold. By that yardstick, AFDC guarantees for a two-person family in Alaska are 91 percent of poverty and for a three-person family 83 percent of poverty.

TABLE 6-8.—AFDC GROSS INCOME LIMIT, NEED STANDARD, MAXIMUM PAYMENT AND PERCENT OF "NEED" PAID FOR A 3-PERSON FAMILY, WITH NO COUNTABLE INCOME, JANUARY 1985

State	Gross income limit (185 percent of need standard)	100 percent of "need"	Maximum benefits	Percent of "need" paid
Alabama	$710	$384	$118	31
Alaska	1,330	719	719	100
Arizona	431	233	233	100
Arkansas	433	234	164	70
California	1,027	555	555	100
Colorado	779	421	346	82
Connecticut	1,010	546	546	100
Delaware	531	287	287	100
District of Columbia	1,210	654	327	50
Florida	740	400	240	60
Georgia	677	366	208	57
Hawaii	866	468	468	100
Idaho	1,025	554	304	55
Illinois	1,215	657	341	52
Indiana	568	307	256	83
Iowa	919	497	360	72
Kansas	690	373	373	100
Kentucky	364	197	197	100
Louisiana	995	538	190	35
Maine	944	510	370	73
Maryland	801	433	313	72
Massachusetts	1,160	627	396	63
Michigan:				
Washtenaw County	1,095	592	447	76
Wayne County	1,030	557	417	75
Minnesota	969	524	524	100
Mississippi	529	286	96	34
Missouri	577	312	263	84
Montana	742	401	332	83
Nebraska	648	350	350	100
Nevada	527	285	233	82
New Hampshire	699	378	378	100
New Jersey	712	385	385	100
New Mexico	477	258	258	100
New York:				
Suffolk County	1,071	579	579	100
New York City	877	474	474	100
North Carolina	825	446	223	50
North Dakota	686	371	371	100
Ohio	1,160	627	290	46
Oklahoma	522	282	282	100
Oregon	714	386	386	100
Pennsylvania	1,136	614	364	59

TABLE 6-8.—AFDC GROSS INCOME LIMIT, NEED STANDARD, MAXIMUM PAYMENT AND PERCENT OF "NEED" PAID FOR A 3-PERSON FAMILY, WITH NO COUNTABLE INCOME, JANUARY 1985—Continued

State	Gross income limit (185 percent of need standard)	100 percent of "need"	Maximum benefits	Percent of "need" paid
Rhode Island	886	479	479	100
South Carolina	346	187	187	100
South Dakota	609	329	329	100
Tennessee	455	246	138	56
Texas	1,027	555	167	30
Utah	1,267	685	363	53
Vermont	1,576	852	558	65
Virginia	672	363	327	90
Washington	1,421	768	476	62
West Virginia	509	275	206	75
Wisconsin	1,162	628	533	85
Wyoming	490	265	265	100
Guam	490	265	265	100
Puerto Rico	333	180	90	50
Virgin Islands	387	209	171	82
Median State		401	327	

Source: Table prepared by the Congressional Research Service [CRS] on the basis of a telephone survey of the States.

Note.—Maximum benefits are identical to payment standards except in Colorado, Indiana, Mississippi, South Carolina, and Utah. Colorado's payment standards are $421 for three persons and $510 for four persons. Indiana's payment standards are $276 for three persons and $326 for four persons. Mississippi's payment standards are $286 for three persons and $327 for four persons. South Carolina's payment standards are $187 for three persons and $229 for four persons. Utah's payments standards are $685 for three persons and $802 for four persons. Puerto Rico pays a maximum benefit of 50 percent of the need standard plus rent as paid. There is no official limit on the amount of rent that can be paid as part of the AFDC grant. The Department of Health and Human Services reported that $20 was the average amount of rent paid as of July 1, 1983. Data assume rent is $20.

TABLE 6–9.—AFDC GROSS INCOME LIMIT, NEED STANDARD, MAXIMUM PAYMENT AND PERCENT OF NEED PAID FOR A 4-PERSON FAMILY WITH NO COUNTABLE INCOME, JANUARY 1985

State	Gross income limit (185 percent of need standard)	100 percent of "need"	Maximum benefits	Percent of "need" paid
Alabama	$888	$480	$147	31
Alaska	1,480	800	800	100
Arizona	522	282	282	100
Arkansas	505	273	191	70
California	1,221	660	660	100
Colorado	944	510	420	82
Connecticut	1,177	636	636	100
Delaware	622	336	336	100
District of Columbia	1,476	798	399	50
Florida	866	468	284	60
Georgia	799	432	245	57
Hawaii	1,010	546	546	100
Idaho	1,160	627	344	55
Illinois	1,372	742	385	52
Indiana	672	363	316	83
Iowa	1,069	578	419	72
Kansas	781	422	422	100
Kentucky	455	246	246	100
Louisiana	1,223	661	234	35
Maine	1,186	641	465	73
Maryland	962	520	376	72
Massachusetts	1,360	735	463	63
Michigan:				
Washtenaw County	1,282	693	542	76
Wayne County	1,217	658	512	75
Minnesota	1,130	611	611	100
Mississippi	605	327	120	34
Missouri	675	365	308	84
Montana	949	513	425	83
Nebraska	777	420	420	100
Nevada	631	341	279	82
New Hampshire	794	429	429	100
New Jersey	820	443	443	100
New Mexico	579	313	313	100
New York:				
Suffolk County	1,251	676	676	100
New York City	1,047	566	566	100
North Carolina	903	488	244	50
North Dakota	840	454	454	100
Ohio	1,400	757	360	46
Oklahoma	646	349	349	100
Oregon	866	468	468	100
Pennsylvania	1,386	749	444	59

TABLE 6-9.—AFDC GROSS INCOME LIMIT, NEED STANDARD, MAXIMUM PAYMENT AND PERCENT OF NEED PAID FOR A 4-PERSON FAMILY WITH NO COUNTABLE INCOME, JANUARY 1985—Continued

State	Gross income limit (185 percent of need standard)	100 percent of "need"	Maximum benefits	Percent of "need" paid
Rhode Island	1,012	547	547	100
South Carolina	424	229	229	100
South Dakota	686	371	371	100
Tennessee	555	300	168	56
Texas	1,149	621	201	30
Utah	1,484	802	425	53
Vermont	1,759	951	622	65
Virginia	781	422	379	90
Washington	1,672	904	561	62
West Virginia	614	332	249	75
Wisconsin	1,386	749	636	85
Wyoming	574	310	310	100
Guam	574	310	310	100
Puerto Rico	422	228	114	50
Virgin Islands	487	263	215	82
Median State		488	379	

Source: Table prepared by the Congressional Research Service [CRS] on the basis of a telephone survey of the States.

Note.—Maximum benefits are identical to payment standards except in Colorado, Indiana, Mississippi, South Carolina, and Utah. Colorado's payment standards are $421 for three persons and $510 for four persons. Indiana's payment standards are $276 for three persons and $326 for four persons. Mississippi's payment standards are $286 for three persons and $327 for four persons. South Carolina's payment standards are $187 for three persons and $229 for four persons. Utah's payments standards are $685 for three persons and $802 for four persons. Puerto Rico pays a maximum benefit of 50 percent of the need standard plus rent as paid. There is no official limit on the amount of rent that can be paid as part of the AFDC grant. The Department of Health and Human Services reported that $20 was the average amount of rent paid as of July 1, 1983. Data assume rent is $20.

Twenty-five years earlier, in 1960, the maximum AFDC benefit of the median State for four persons (then the usual AFDC family size) had been 63 percent of the poverty threshold; in 1965, 62 percent; in 1970, 71 percent; in 1975, 63 percent; in 1980, 57 percent; and in 1985, 43 percent. (See Table 6–10.)

TABLE 6-10.—AFDC BENEFIT AS PERCENTAGE OF POVERTY THRESHOLD, 1960–85

	September 1960	January 1965	July 1970	July 1975	July 1980	January 1985
Median State's maximum AFDC benefit for a 4-person family	$155	$163	$221	$264	$350	$379
Percent of poverty threshold:						
Previous year's	63	62	71	63	57	43
Same year's	62	61	67	58	50	....

Enrollment in AFDC confers automatic eligibility for Medicaid. Most AFDC families are eligible also for food stamps (until 1979 all were). As real AFDC benefits declined, food stamp benefits offset part of their losses.[3] However, combined AFDC-food stamp benefits for a four-person family without countable income in the median AFDC State dropped from $724 (January 1985 dollars) in 1971 to $570 in 1985. (See Table 6–11.) This drop, which amounted to 21 percent, was almost wholly due to shrinkage in AFDC benefit levels. Food stamp maximum benefits were virtually unchanged, since they were adjusted for food price inflation in all years except 1982.

TABLE 6-11.—COMBINED BENEFIT [1] AS PERCENTAGE OF POVERTY, 1975 AND 1985

	Current dollars		January 1985 dollars [2]			
	July 1971	January 1985	July 1971	Percent of combined benefits	January 1985	Percent of combined benefits
AFDC	$227	$379	$589	81	$379	66
Food stamps	$52	$191	$135	19	$191	34
Combined benefits	$279	$570	$724	100	$570	100
Percent of previous year's poverty threshold	85	65	....			

[1] The benefit is based on AFDC family size of four in the median State (ranked by maximum benefits).
[2] CPI-U for July 1971 is 121.8 and for January 1985, 316.1.

In the last 14 years the role of food stamps as a support to AFDC families has grown. Many States have increased their use of food stamps, which are 100 percent federally-funded, as a supplement to AFDC cash. As shown in table 6-11, food stamps now represent 34 percent of combined benefits to a four-person family without private income in the median AFDC State. Back in 1971, the corresponding food stamp share was 19 percent.

Between July 1970 and January 1985 the consumer price index increased 168 percent. Table 6-12 shows that the AFDC monthly payments for a family of four with no countable income kept pace with or exceeded the rate of inflation in only three States (California, Maine, and Wisconsin).

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[3] The food stamp program began operating under uniform national rules in 1971.

TABLE 6-12.—AFDC MAXIMUM BENEFITS FOR A 4-PERSON FAMILY BY STATE, SELECTED YEARS

State	July 1970	July 1975	July 1980	January 1985	Percent change 1970-85	Percent change 1970-85 in constant 1985 dollars
Alabama	$81	$135	$148	$147	81.5	−32.2
Alaska	375	400	514	800	113.3	−20.4
Arizona	167	197	244	282	68.9	−37.0
Arkansas	100	140	188	191	91.0	−28.7
California	221	349	563	660	198.6	+11.5
Colorado	235	264	351	420	78.7	−33.3
Connecticut	330	403	553	636	92.7	−28.1
Delaware	187	258	312	336	79.7	−32.9
District of Columbia	238	297	349	399	67.6	−37.4
Florida	134	170	230	284	111.9	−20.9
Georgia	133	153	193	245	84.2	−31.2
Hawaii	263	497	546	546	107.6	−22.5
Idaho	242	344	367	344	42.1	−46.9
Illinois	282	317	350	368	30.5	−51.3
Indiana	150	250	315	316	110.7	−21.4
Iowa	243	356	419	419	72.4	−35.6
Kansas	244	353	390	422	73.0	−35.4
Kentucky	187	235	235	246	31.6	−50.9
Louisiana	109	158	213	234	114.7	−19.9
Maine	168	219	352	465	176.8	+3.3
Maryland	196	242	326	376	91.8	−28.4
Massachusetts	314	368	419	463	47.5	−45.0
Michigan:						
Washtenaw County		453	531	542		
Wayne County	263	399	5010	512	94.7	−27.3
Minnesota	299	385	486	611	104.3	−23.7
Mississippi	70	60	120	120	71.4	−36.0
Missouri	130	150	290	308	136.9	−11.6
Montana	228	227	331	425	86.4	−30.4
Nebraska	200	245	370	420	110.0	−21.6
Nevada	143	230	314	279	95.1	−27.2
New Hampshire	294	346	392	429	45.9	−45.5
New Jersey	347	356	414	443	27.7	−52.3
New Mexico	182	206	267	313	72.0	−35.8
New York:						
Suffolk County		476	563	676		
New York City	336	400	476	566	68.5	−37.1
North Carolina	158	200	210	244	54.4	−42.3
North Dakota	261	347	408	454	73.9	−35.1

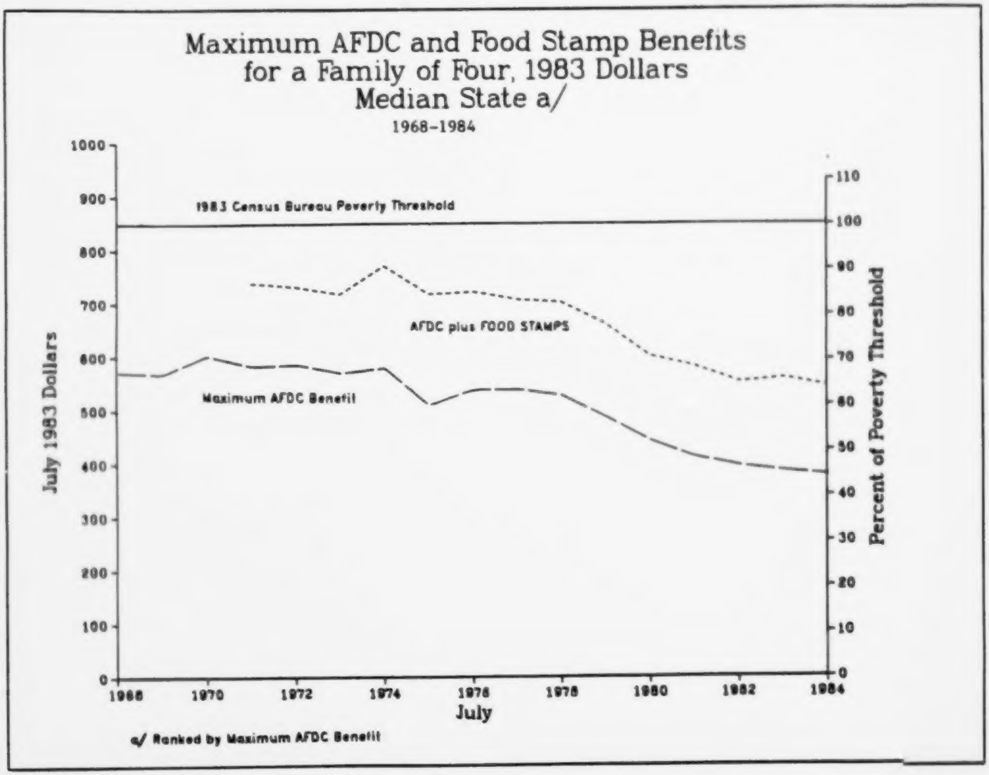
TABLE 6-12.—AFDC MAXIMUM BENEFITS FOR A 4-PERSON FAMILY BY STATE, SELECTED YEARS—Continued

State	July 1970	July 1975	July 1980	January 1985	Percent change 1970–85	Percent change 1970–85 in constant 1985 dollars
Ohio	200	254	327	360	80.0	−32.8
Oklahoma	185	264	349	349	88.6	−29.6
Oregon	225	413	441	468	108.0	−22.3
Pennsylvania	313	349	395	444	41.9	−47.0
Rhode Island	263	319	389	547	108.0	−22.4
South Carolina	103	117	158	229	122.3	−17.0
South Dakota	300	329	361	371	23.7	−53.8
Tennessee	129	132	148	168	30.2	−51.4
Texas	179	140	140	201	12.3	−58.1
Utah	212	306	429	425	100.5	−25.2
Vermont	304	367	552	622	104.6	−23.6
Virginia	261	311	305	379	45.2	−45.8
Washington	303	370	536	561	85.1	−30.9
West Virginia	138	249	249	249	80.4	−32.6
Wisconsin	217	403	529	636	193.1	+9.4
Wyoming	227	250	340	310	36.6	−49.0
Guam			307	310		
Puerto Rico	53	53	63	114	115.1	−19.7
Virgin Islands		166	210	215		
Median State	221	264	350	379		

Chart 6.7 illustrates the erosion of AFDC maximum benefit levels of the median State in constant dollars from a peak of $601 (constant 1983 dollars) for four persons in 1970 to $376 in July 1984. In this period only California, Massachusetts, and Hawaii had laws requiring automatic benefit adjustments for price inflation, but all suspended them after limited use.

Charts 6.8, 6.9, and 6.10 (Tennessee, New York City, and California) indicate that the erosion in AFDC has not been uniform. In Tennessee it was sharper than average. Maximum AFDC benefits plunged more than 49 percent, from $330 per four-person family (constant 1983 dollars) in 1971 to $168 in 1984. Even though real food stamp benefits for such a family dropped by 2 percent, they still represented a partial offset to the cash loss, and combined benefits fell by 30 percent. New York City also had unusually severe AFDC erosion. AFDC guarantees dropped from $801 in 1971 (1983 dollars) to $566, and combined benefits sank 24 percent. California AFDC benefits, which were automatically adjusted for price inflation during some of the years, were relatively steady, and combined benefits fell only 7 percent.

CHART 6.7



Maximum AFDC and Food Stamp Benefits for a Family of Four, 1983 Dollars
Median State a/
1968-1984

a/ Ranked by Maximum AFDC Benefit

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CHART 6.8

Maximum AFDC and Food Stamp Benefits
for a Family of Four, 1983 Dollars
TENNESSEE
1968–1984

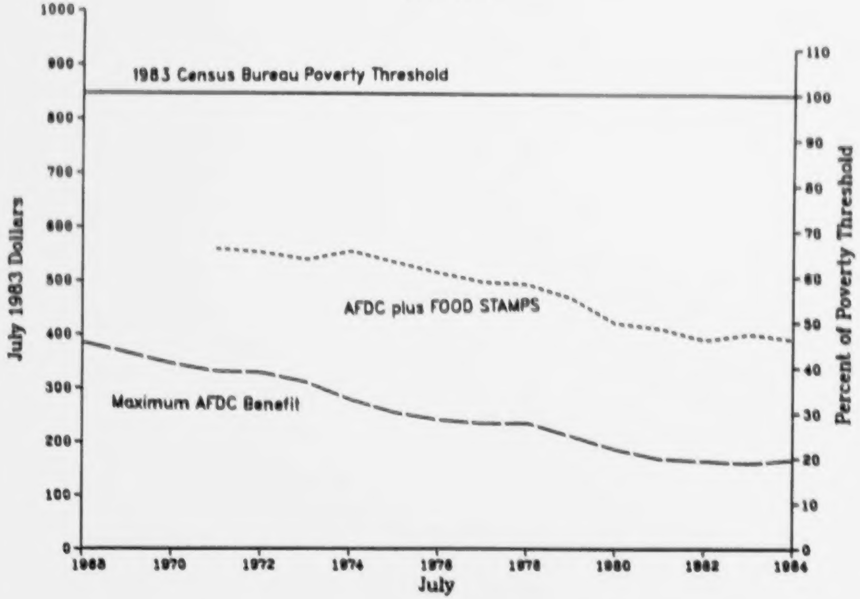
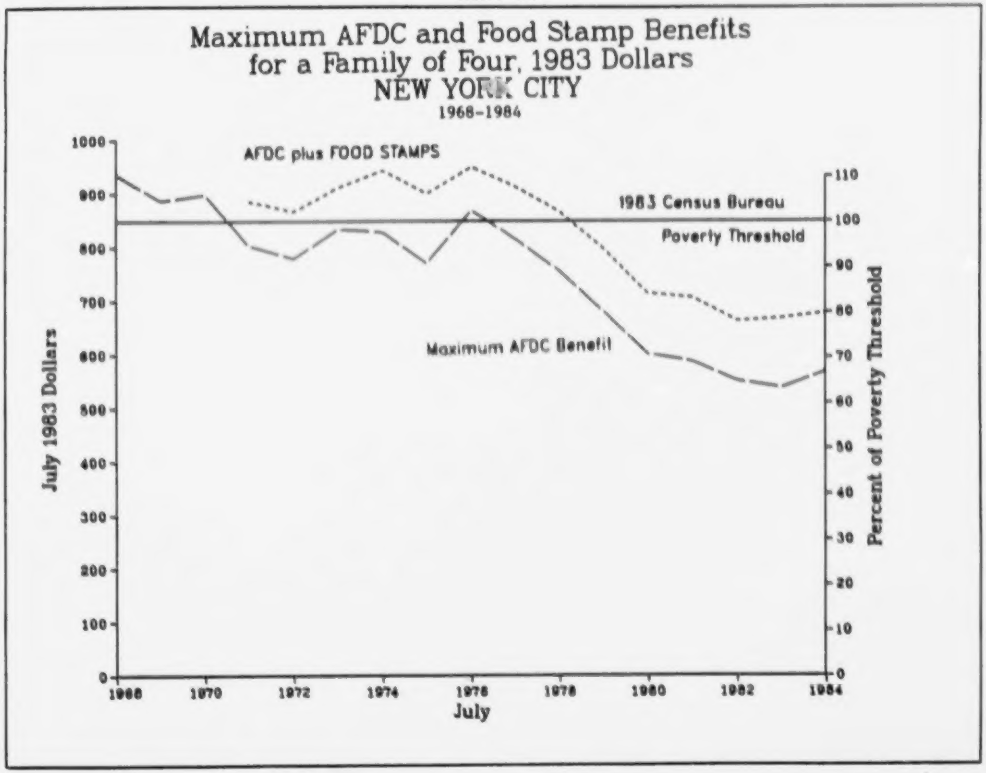
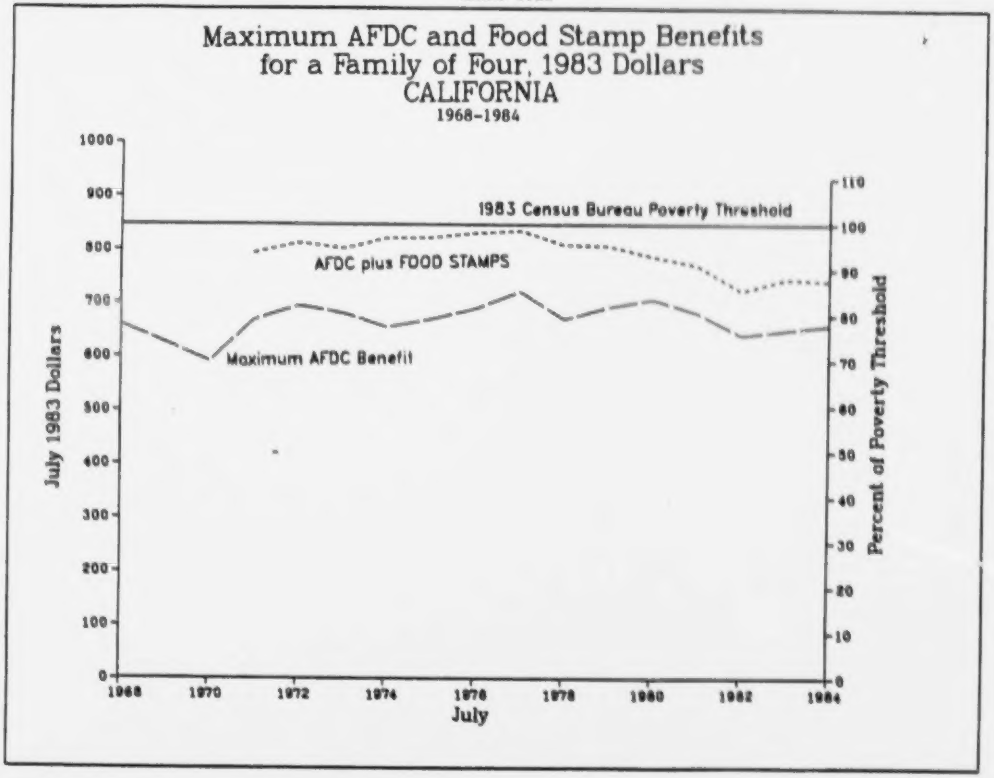


CHART 6.9



Maximum AFDC and Food Stamp Benefits
for a Family of Four, 1983 Dollars
NEW YORK CITY
1968-1984

CHART 6.10


Maximum AFDC and Food Stamp Benefits
for a Family of Four, 1983 Dollars
CALIFORNIA
1968-1984
1983 Census Bureau Poverty Threshold
AFDC plus FOOD STAMPS
Maximum AFDC Benefit
July 1983 Dollars
Percent of Poverty Threshold
July
0
100
200
300
400
500
600
700
800
900
1000
0
10
20
30
40
50
60
70
80
90
100
110
1968
1970
1972
1974
1976
1978
1980
1982
1984

ELIGIBILITY AND POVERTY

To receive AFDC payments a family must pass two income tests: First, a gross income test, and second, a counted ("net") income test, which deals with the treatment of disregarded income, such as earnings spent on child care. As mentioned earlier, the gross income ceiling is 185 percent of a State's need standard. The net income ceiling is 100 percent of its need standard. Thus, disregarded earnings cannot exceed 85 percent of a State's need standard.

The gross income test applies to both applicants and enrollees. No family with gross income, including a child's earnings, that is more than 85 percent above the State need standard can receive AFDC.[4]

The effect of this rule is to bar from AFDC to help some poor families of three persons in the 22 jurisdictions that have a monthly need standard below $373. This sum is 54 percent of the poverty threshold for a three-person family.[5] Examples range from Puerto Rico and South Carolina, where eligibility ends when gross income reaches $333 and $346, respectively (more than 49 percent below the poverty threshold), to Vermont, where the cutoff is $1,576 (more than twice the poverty threshold).[6]

Many poor families barred from AFDC by the program's gross income rule are eligible for food stamps. For example, a Kansas family of three with earnings of $690 (poverty threshold) would be eligible for at least $168 in food stamps, more if shelter costs were high.

Moreover, loss of AFDC by poor families cause loss of automatic eligibility for Medicaid, with two exceptions. Those who live in one of the 34 States or juridictions (as of December 1984) with a medically needy program can continue to receive Medicaid, but only after spending prescribed sums on their own medical expenses. In addition, the 1984 Deficit Reduction Act requires States to extend Medicaid coverage for 9 months to persons who lose AFDC and Medicaid eligibility because of earnings, provided they would have continued to receive AFDC if one-third of their residual earnings (after initial deductions) were disregarded. States are permitted to add another six months of Medicaid coverage for such persons.

EARNINGS AND POVERTY

As noted earlier, except for Alaska no State pays a destitute family an AFDC benefit as large as the poverty threshold. Indeed, 30 jurisdictions provide less than 50 percent of the poverty threshold for a three-person family (with no countable income). At this cash level ($345), food stamps would make up part of the deficit; for most such families, food stamps would bring combined income up to about 70 percent of poverty ($483).

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[4] The Deficit Reduction Act of 1984 permits States to disregard the earnings of a full-time student in an AFDC family for up to 6 months when determining whether the family meets the gross income test.

[5] $373 × 1.85 = poverty threshold for three persons.

[6] A Vermont family of three, however, would lose eligibility (after 4 months on a job) when earnings reached $983 (assuming child care costs of $320, for two children). With lower costs, eligibility would end at a lower earnings level.

Could the AFDC mother make up the remaining poverty gap ($207) with a job? The answer is no, not while enrolled in AFDC. Under current law, she could supplement her AFDC check by working, but only for 12 months,[7] and during the last 8 months all but $30 of "net" earnings would be subtracted from her grant. Thereafter, every dollar of "net" wages would be deducted from the AFDC grant. She could, of course, attempt to obtain a job with wages sufficiently high that her earnings would exceed the poverty level. Before the effective date of the Omnibus Budget Reconciliation Act of 1981 (OBRA), Public Law 97-35, States were required to give AFDC recipients who went to work a "bonus." Federal law required States to deduct a portion of every dollar earned, plus all reasonable work expenses, in considering how much income such recipients had. The resulting "counted" income was used to calculate the AFDC payment. However, OBRA put a time limit of 4 months on the work bonus and limited deductible work expenses.

In 1980, under the pre-OBRA rules, most States offered an AFDC cash supplement to AFDC recipients who took a job that paid as much as 75 percent of their family's poverty threshold. By 1984, under the new rules, recipients whose earnings were as low as 50 percent of poverty were ineligible for aid in more than half the States.[8] (For details of how earnings are treated by AFDC, and the history of earnings disregards, see Appendix D, AFDC and work rules and programs.)

Data from the Survey of Income and Program Participation (SIPP)[9] show that 3.5 million families with children reported having *no* earnings over a 4-month period in the last half of 1983. Of these familes:

—46 percent received AFDC each month, 51 percent never received AFDC, three percent sometimes received it.

—76 percent received a non-cash transfer each month, 22 percent never received such a transfer, two percent sometimes did.

—17 percent always received a cash welfare benefit other than AFDC, 81 percent never recieved such a benefit, two percent sometimes did.

The SIPP found that 62 percent of families with total money income below the poverty threshold never received AFDC, 34 percent always received AFDC, and four percent sometimes did.

NUMBER OF POOR CHILDREN SERVED

Many families with incomes below the poverty level are not helped by the AFDC program. Even though the Federal Government reimburses the States for at least 50 percent of the amount each pays out in AFDC benefits, the States decide the amount of benefits to be paid and the income at which families are eligible for benefits. As seen earlier, 22 jurisdictions as of January 1985 had gross income eligibility standards for a family size of three that were less than the poverty level.[10]

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[7] For 4 months she also would be entitled to the work incentive bonus: disregard of one-third of residual earnings.

[8] For State-by-State examples of the changes, see U.S. House. Committee on Ways and Means. Subcommittee on Public Assistance and Unemployment Compensation. Families in Poverty: Changes in the "Safety Net." Sept. 20, 1984. Ways and Means Committee Print 98-37.

[9] The Survey of Income Program Participation, undertaken by the Census Bureau, provides information on the distribution of income and wealth and participation in government programs by the U.S. population.

TABLE 6-13.—AFDC CHILDREN AND POOR CHILDREN, 1960–83

[In thousands]

	AFDC children	Poor related children in families	AFDC children per 100 poor children
1960	2,314	17,288	13.4
1961	2,587		
1962	2,818		
1963	2,909		
1964	3,091		
1965	3,256	14,388	22.6
1966	3,411	12,146	28.1
1967	3,771	11,427	33.0
1968	4,275	10,739	39.9
1969	4,985	9,501	52.5
1970	6,214	10,235	60.7
1971	7,434	10,344	71.9
1972	7,905	10,082	78.4
1973	7,902	9,453	83.6
1974	7,822	9,967	78.5
1975	8,095	10,882	74.4
1976	8,001	10,081	79.4
1977	7,773	10,028	77.5
1978	7,402	9,722	76.1
1979	7,179	9,993	71.8
1980	7,419	11,114	66.8
1981	7,527	12,068	62.4
1982	6,903	13,139	52.5
1983	[1] 7,106	13,326	53.3

[1] Based on January–June 1983 average.

Source: AFDC data from Social Security Bulletin, Statistical Supplement, 1983; poor children data from Current Population Surveys.

If we examine the average monthly number of AFDC children as a proportion of related children who were poor throughout the year we see growing numbers of AFDC children per 100 poor children until 1974, when the ratio started dropping, with some fluctuations. The average number of children on AFDC as a proportion of the number of children in poverty increased from 13.4 per 100 in 1960 to 83.6 per 100 in 1973, and declined continuously from 77.5 per 100 in 1977 to 52.5 per 100 in 1982. In 1983, only 53.3 of every 100 poor children received AFDC.[11]

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[10] The gross income limit is somewhat misleading because a family can have income substantially below this limit and still not qualify for AFDC benefits.

[11] In order to qualify for AFDC a child does not necessarily have to be under age 18. Hence, our analysis overstates the relationship between AFDC children and poor children. For instance, in 1979 States could receive AFDC Federal matching for all needy children under age 21 if they were going to school. This means that some AFDC children were over age 18 and thereby the

Continued

IMPACT OF AFDC ON POVERTY RATES

This section examines the effectiveness of the AFDC program in alleviating the poverty of children and their families. Determining the antipoverty effectiveness of a particular program begins by first examining the relationship between the program and poverty, which we have done in part in the previous section. Second, it must be determined how many persons are removed from poverty by the program, or to what extent their deficit is narrowed though not eliminated.

NUMBER OF POOR BEFORE AND AFTER WELFARE PAYMENTS

One way of measuring the impact of a welfare program upon poverty is to estimate the number of persons who would be counted as poor if that program's benefits were not received. The additional number of persons that are counted as poor provides an estimate of the number of people lifted out of poverty by that particular income source. In other words, the pre-welfare poor consists of persons with final cash aid incomes below the official poverty level (even after receiving any cash aid) plus those with incomes above the poverty level only because they have received cash welfare payments.

Families with children

Table 6-14 shows the number of families with children in poverty before and after accounting for cash welfare payments. The first column shows how many families would have been counted as poor if they had all sources of cash income available to them, except for AFDC, SSI and General Assistance (AFDC was the primary source). The second column shows the number of families who were poor during the period 1969-83, after receiving cash welfare payments. The third column shows the number of families removed from poverty by cash welfare payments. The table indicates that there would have been 270 thousand more poor families in 1969 if cash welfare payments had not existed but everything else remained unchanged, and 254 thousand additional poor families in 1983. (As noted in chapter V, existence of cash transfers reduces work incentive and tends to increase market income poverty rates but the net effect of transfers is a reduction in poverty rates.) Welfare payments lifted the most families out of poverty in 1977. In 1969, almost 8 percent of pre-welfare poor families were removed from poverty as a result of cash welfare payment; in 1977, 11 percent; and in 1983 only 4 percent.

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number of AFDC children per 100 related poor children was higher than it otherwise would have been. In 1970, 2.7 percent of the 7.2 million children receiving AFDC were 18, 19, or 20 years old.

During the period 1935-38, a child had to be under age 16 to qualify for AFDC benefits. From 1939-63, a child had to be under age 18 to qualify for AFDC. But for the 16-year period, 1964-80, a child under age 21 meeting the program requirements could qualify for AFDC. Since 1981, a child must be under 18, or at State option under 19, to qualify for AFDC benefits.

TABLE 6-14.—POOR FAMILIES WITH CHILDREN BEFORE AND AFTER CASH WELFARE, 1969–1983

[In thousands]

	Prewelfare poor families	Postwelfare poor families	Number of families removed from poverty by cash welfare payments	Percent of prewelfare poor families removed from poverty
1969	3,489	3,219	270	7.7
1970	3,820	3,477	343	9.0
1971	4,130	4,698	432	10.5
1972	4,094	3,646	448	10.9
1973	3,984	3,550	434	10.9
1974	4,335	3,890	445	10.3
1975	4,628	4,172	456	9.9
1976	4,504	4,060	444	9.9
1977	4,605	4,081	524	11.4
1978	4,477	4,060	417	9.3
1979	4,561	4,121	440	9.6
1980	5,409	5,004	405	7.5
1981	5,767	5,376	391	6.8
1982	6,222	5,912	310	5.0
1983	6,336	6,082	254	4.0

Source: Congressional Research Service. Based on Current Population Survey data tapes from the Bureau of Census.

Children

Table 6–15 presents the same analysis for children. The same pattern appears: cash welfare payments are less effective in reducing the number of poor in later years than in earlier years. During the period 1970–75 cash welfare payments reduced the number of children defined as poor by *more than* 1 million, in each year. But in 1983, cash welfare payments removed only about half a million children from poverty. In 1969, almost 8 percent of pre-welfare poor children were removed from poverty as a result of cash welfare payments; in 1973, 10 percent; and in 1983, only 3.5 percent.

TABLE 6-15.—POOR CHILDREN BEFORE AND AFTER CASH WELFARE, 1969–83

[In thousands]

	Prewelfare poor children	Postwelfare poor children	Number of children removed from poverty by cash welfare payments	Percent of prewelfare poor children removed from poverty
1969	10,808	9,987	821	7.6
1970	11,713	10,638	1,075	9.2

TABLE 6-15.—POOR CHILDREN BEFORE AND AFTER CASH WELFARE, 1969-83—Continued

[In thousands]

	Prewelfare poor children	Postwelfare poor children	Number of children removed from poverty by cash welfare payments	Percent of prewelfare poor children removed from poverty
1971	11,672	10,513	1,159	9.9
1972	11,452	10,304	1,148	10.0
1973	10,758	9,655	1,103	10.3
1974	11,463	10,392	1,071	9.3
1975	12,237	11,087	1,150	9.4
1976	11,231	10,254	977	8.7
1977	10,843	10,211	632	5.8
1978	11,123	10,210	922	8.3
1979	11,032	10,111	975	8.8
1980	12,379	11,764	615	5.0
1981	13,274	12,505	769	5.8
1982	14,284	13,647	637	4.5
1983	14,306	13,807	499	3.5

Source: Congressional Research Service. Based on Current Population Survey data tapes from the Bureau of Census.

POVERTY RATES BEFORE AND AFTER AFDC

The Survey of Income and Program Participation (SIPP) found that cash welfare benefits received by AFDC recipients in a 4-month period in the last half of 1983 lifted nine percent of them out of poverty and moved another 38 percent into a higher poverty income bracket: 26.3 percent moved from below 50 percent of poverty to above that line; 11.7 percent moved from below to above 75 percent of poverty.

In all, SIPP reported that incidence of poverty among AFDC recipients, which was 88 percent before welfare, was cut to 75 percent by cash aid.

SHARE OF POOR ENROLLED IN AFDC

Another way of gauging the effectiveness of the AFDC program in reducing poverty is to examine what share of the pre-welfare poverty population is reached by AFDC.

In 1970, for every 100 families with children that had pre-welfare incomes below the poverty level, there were 58 AFDC families. The number of AFDC families per 100 pre-welfare poor families rose to a high of 80 in 1976; the ratio was lower in 1974 and 1975, 75 and 76, respectively. By 1983 the ratio dropped back to 58 AFDC families per 100 pre-welfare poor families with children, no change from the base year—1970 and a decrease of 27 percent from the 1976 peak. (See Table 6-16.)

TABLE 6-16.—AFDC FAMILIES AND PREWELFARE POOR FAMILIES, 1970-83

[In thousands]

	AFDC families	Prewelfare poor families with children	AFDC families per 100 prewelfare poor families with children
1970	2,208	3,820	57.8
1971	2,762	4,130	66.9
1972	3,049	4,094	74.5
1973	3,148	3,984	79.0
1974	3,230	4,335	74.5
1975	3,498	4,628	75.6
1976	3,579	4,504	79.5
1977	3,588	4,605	77.9
1978	3,522	4,477	78.7
1979	3,509	4,561	76.9
1980	3,712	5,409	68.6
1981	3,835	5,767	66.5
1982	3,542	6,222	56.9
1983	3,679	6,336	58.1

Source: Congressional Research Service. Based on data from the Current Population Surveys.

A similar pattern holds for children only. In 1970 there were 53 AFDC children for every 100 pre-welfare poor children. The ratio rose to 73 in 1973. By 1983 AFDC children per 100 pre-welfare poor children had dropped to 50, 32 percent lower than in the peak year of 1973. (See Table 6-17.) A small part of the fall in this ratio between 1973 and 1983 may reflect 1981 law that reduced aid in 1982 to near-poor and other working mothers and, hence, may have reduced the proportion of AFDC children who were not poor (on an annual basis). However, almost three-fourths of the drop in the ratio occurred earlier and thus represents a real decrease in the share of poor children enrolled in AFDC. This, in turn, is partly attributable to the failure of AFDC benefits to keep pace with prices. Because of inflation AFDC eligibility limits in many States have fallen farther below the national poverty threshold.

TABLE 6-17.—AFDC CHILDREN AND PREWELFARE POOR CHILDREN, 1970-83

[In thousands]

	AFDC children [1]	Prewelfare poor children [2]	AFDC children per 100 prewelfare children
1970	6,214	11,713	53.1
1971	7,377	11,672	63.2
1972	7,834	11,452	68.4
1973	7,818	10,758	72.7
1974	7,732	11,463	67.5
1975	7,988	12,237	65.3
1976	7,886	11,231	70.2

TABLE 6-17.—AFDC CHILDREN AND PREWELFARE POOR CHILDREN, 1970-83—Continued

[In thousands]

	AFDC children [1]	Prewelfare poor children [2]	AFDC children per 100 prewelfare children
1977	7,663	10,843	70.7
1978	7,295	11,132	65.5
1979	7,075	11,086	63.8
1980	7,319	12,379	59.1
1981	7,421	13,274	55.9
1982	6,903	14,284	48.3
1983	7,106	14,306	49.7

[1] Does not include foster care children.

[2] Based on data from the Current Population Surveys.

AFDC-Unemployed Parent (AFDC-UP) families present a different picture. These are AFDC families in which there are two parents, one of who is unemployed. In 1970, there were only four AFDC-UP families for every 100 male-present pre-welfare poor families with children. The ratio of UP families to male-present pre-welfare poor families fluctuated within a relatively small range until the late 1970s. From 1979 to 1983 it climbed from 6.3 to 9.5 per 100, a rise of 50 percent. (See Table 6-18.)

Finally, we examined female-headed single-parent AFDC families. The findings may at first seem counterintuitive. Note that in general over 90 percent of AFDC families are female-headed single-parent families, whereas just over 50 percent of pre-welfare poor families with children are female-headed. Table 6-19 shows that in 1969 there were 76 female-headed AFDC families for every 100 female-headed pre-welfare poor families. In 1973, the ratio had increased to 103 per 100. That is, there were more female-headed AFDC families then female-headed pre-welfare poor families. The same was true for 1975 and 1977. In 1979 the ratio dropped to 97 per 100. And in 1982 there were only 82 female-headed AFDC families per 100 female-headed pre-welfare poor families. This finding says that in 1973, 1975 and 1977 some female-headed AFDC families were not considered poor. This is in part because the AFDC program aids families on the basis of their income and resources in a given month whereas poverty status is calculated by the Census Bureau on the basis of annual income. However, during the period between 1969 and October 1981, AFDC families with earnings could have income roughly equal to twice the AFDC payment standard amount.

TABLE 6-18.—AFDC-UP FAMILIES AND MALE-PRESENT PREWELFARE POOR FAMILIES, 1970-83

[In thousands]

	AFDC-UP families	Male-headed prewelfare poor families with children [1]	AFDC-UP families per 100 prewelfare poor families with children
1970	78	1,924	4.1
1971	143	2,011	7.1
1972	134	1,866	7.2
1973	120	1,680	7.1
1974	95	1,865	5.1
1975	101	2,069	4.9
1976	135	1,877	7.2
1977	149	1,870	8.0
1978	127	1,728	7.3
1979	114	1,797	6.3
1980	141	2,309	6.1
1981	209	2,481	8.4
1982	232	2,791	8.3
1983	272	2,873	9.5

[1] Based on data from the Current Population Surveys.

TABLE 6-19.—FEMALE-HEADED AFDC FAMILIES AND FEMALE-HEADED PREWELFARE POOR FAMILIES, 1969-82

[In thousands]

	Female-headed [1] single-parent [2] AFDC families	Female-headed prewelfare [3] poor families	Female-headed AFDC families per 100 female-headed prewelfare poor families
1969	1,267	1,676	75.6
1971	1,926	2,119	90.9
1973	2,366	2,304	102.7
1975	2,733	2,559	106.8
1977	2,745	2,735	100.4
1979	2,675	2,764	96.8
1982	2,820	3,431	82.2

[1] Assumes that 98.9 percent of single-parent AFDC families are headed by women.

[2] Based on AFDC characteristics survey data for 1-adult families.

[3] Based on data from the Current Population Surveys.

Another important factor affecting these findings is the way the data are classified. Related subfamilies are treated as part of the primary family rather than as separate units. In other words, female-headed pre-welfare poor families do not include subfamilies. This makes a substantial difference. Because subfamilies generally are treated as one family unit rather than two, our time series data on the number of pre-welfare poor female-headed single-parent families is understated, perhaps by as much as 25 percent.[12] In addition, our accounting periods differ. Poverty is based on annual income and is an unduplicated annual count. AFDC eligibility and caseload numbers are based on monthly data and thereby undercount annual AFDC recipients.

AFDC EXITS AND POVERTY

A 1983 study of AFDC families [13] found that although about half of all "spells" of AFDC are relatively short (2 years), the majority of persons enrolled in the program at any point in time are in the midst of spells that last at least 8 years. The study reported that half of AFDC spells lasted less than 2 years, that about 50 percent of the persons enrolled at any given point in time were in the midst of very long episodes of AFDC and that such long-term recipients used most of the resources of the program. The study said that about 40 percent of those who ended AFDC spells were poor after their exit. About 52 percent of those whose AFDC eligibility ended because they no longer had an eligible child were poor the following year. For those who earned their way off AFDC, about 32 percent were poor in the year after their welfare spell; their poverty reflected the sub-poverty gross income eligibility limits of AFDC in many States.

5. Social Security and Poor Children

INTRODUCTION

The program of Old-Age, Survivors, and Disability Insurance (OASDI), popularly known as Social Security, provides monthly cash benefits to children of retired, disabled, or dead workers with insured status. Further, until the youngest child in the family reaches his or her 16th birthday, social security also pays a benefit to the nonaged parent (or, sometimes, to the grandparent) who cares for the child.

In late February 1985, 95 out of every 100 children under 18 years old had survivors' protection under social security because at least one of their parents was insured.

In 1983 the program paid an estimated $10.5 billion to 3.1 million children and to 0.7 million parents caring for children. These social security child and parent benefits exceeded the Federal sum spent for AFDC benefits that year by 40 percent, or $3.0 billion.

For social security benefits, there is no income limit, but earnings above a threshold amount cause some reduction in benefits. Although social security is paid without regard to income, a significant part of social security benefits for children and their caretakers go to families whose wage and property income falls short of their poverty threshold (discussed later).

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[12] For example, in 1983, there were 33.4 million families with own children under 18; 2.2 million were related subfamilies and another 0.4 million were unrelated subfamilies. Subfamilies represented 8.5 percent of total families. Subfamilies represented 28 percent of families maintained solely by the mother.

[13] Bane, Mary Jo and David T. Ellwood. The Dynamics of Dependence: The Routes to Self-Sufficiency. Prepared for the U.S. Department of Health and Human Services under Contract No. HHS-100-82-0038. June 1983. (Prepared by Urban System Research and Engineering Inc., Cambridge, Mass.)

Black children account for 15 percent of all U.S. children, but for 21.5 percent of the children receiving social security benefits. (See Table 6-20). For a number of reasons, relatively more black than white children receive social security: Black workers tend to (1) die younger, (2) have more disabilities, and (3) have somewhat larger families than white workers. However, average benefits to black children are smaller than those of white children, reflecting lower wages.

HISTORY

CHILD AND PARENT BENEFITS

The original Social Security Act excluded from coverage jobs in agriculture and domestic service, among others, and it entitled only retired workers to monthly benefits. In 1939 the program was expanded to offer benefits for dependents and survivors of married workers without increasing the workers' payroll taxes. The new beneficiaries included children of dead or retired workers and nonaged widowed mothers caring for children.[14] However, because their parents worked in non-covered jobs, about two-thirds of black children lacked social security protection.[15]

In 1950 Congress extended coverage to regularly employed farm and domestic workers. At the same time it established a benefit for the nonaged wife of a retired worker with a child in her care (and for a surviving divorced mother, if dependent, with a child in her care).

In 1958, 2 years after disability insurance was adopted, Congress extended benefits to dependents of disabled workers, including children and nonaged mothers caring for them. Grandchildren were entitled to children's benefits in 1972, under certain circumstances.

Various courts held in the 1970s that fathers were entitled to benefits as caretakers of children on the same basis as mothers: widowed fathers (1975), nonaged fathers—husbands of retired or disabled workers (1978), and surviving divorced fathers (1979). Congress ratified these decisions by changing the law in 1983.

STUDENT BENEFITS

The 1939 Act ended a child's eligibility for a social security survivor's or dependent's benefits on his 16th birthday unless he were a student. Students remained eligible until their 18th birthday. The mother's benefit ended at the same time as her child's benefit.

In 1946 Congress dropped the student requirement for benefits to 16 and 17 year olds, so that all recipient children remained eligible until their 18th birthday. In 1965 it expanded the program to cover full-time college students and other post-secondary students aged

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[14] For a discussion of the distribution of social security survivor benefits for children, see Ozawa, Martha and William T. Alpert. Distributive Effects of Survivors Insurance Benefits and Public Assistance. Social Service Review, v. 58, no. 4, Dec. 1984. p. 608-621.

[15] Estimate of Charles V. Hamilton, Columbia University, presented at a conference on poverty sponsored by the Institute for Research and Poverty and the U.S. Department of Health and Human Services, Williamsburg, Va., Dec. 7, 1984.

18 through 21. The mother's benefit, however, continued to end on the child's 18th birthday.

Congress constricted benefits in passing the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35). This law made two changes that restricted eligibility for child and parent benefits. First, it phased out benefits for postsecondary students (retaining them for elementary and secondary school students over 18 but under age 19). Second, it ended parents' benefits upon a child's 16th birthday, 2 years earlier than before.

ELIGIBILITY

To receive a social security benefit, a child must be unmarried and either under age 18 or a fulltime elementary or secondary school student under age 19.[16] He or she must be the dependent of a retired or disabled worker drawing benefits or the survivor of an insured worker.

To receive a parent's benefit, one must be caring for a child under age 16 who receives social security. The benefit is available to wives and husbands of retired or disabled workers and to widowed fathers and mothers. Such persons otherwise could not receive social security benefits if they were able-bodied until they were at least 60 years old.

To qualify his dependents for benefits, a retired or disabled person must be "fully insured," which requires that he have worked a number of quarters related to his age (but not more than 40 quarters). To qualify his survivors for benefits, a person need only be "currently insured," a status requiring fewer quarters of covered work.

BENEFIT LEVELS

Survivor benefits (for child or nonaged parent caretaker) equal 75 percent of the worker's primary insurance amount. The benefit for a child or spouse of a retired or disabled worker equals 50 percent of the worker's basic benefit amount. However, family maximums are imposed on benefits. In addition, benefits are reduced by half of earnings above an exemption threshold, set at $450 monthly in 1985 for nonaged beneficiaries.

Like other social security benefits, payments to children (except for postsecondary students) and parents are automatically adjusted for price inflation.

Benefits at the end of 1983 averaged $239 monthly for all children under 18, $228 for parents, and $204 for students. Benefits of surviving children averaged $302 for whites, $237 for blacks, and $226 for others.

RELATIONSHIP TO POVERTY

As seen before (Table 6-1), a total of $4.1 billion in social insurance benefits served to reduce the poverty income deficit of children in 1983. A conservative estimate is that 86 percent of this sum, or $3.5 billion, was in the form of social security benefits. (The rest were unemployment benefits, workers' compensation, railroad retirement benefits, and veterans' benefits.) This estimate is based on the proportion of total social insurance benefits that were represented by social security benefits in September 1983, according to the Census Bureau's Survey of Income and Program Participation. The estimated amount of social security benefits that reduced the poverty gap of children in 1983, $3.5 billion, equalled about one-third of the social security benefits paid that year to children and their caretakers.

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[16] Social security also offers a "child's" benefit to a person over age 18 who was disabled before age 22 while unmarried. Such disabled "children" are excluded from the data in this report, which deals with children under 18.

RELATIONSHIP TO OTHER BENEFITS

In May 1982, the Department of Health and Human Services (DHHS) reported that 2.5 percent of AFDC families received social security benefits, compared with 3.1 percent in March 1979. The benefits averaged $145 in May 1982, $134 in March 1979.

AFDC requires that most unearned cash income of recipients be used to reduce the grant. Until Congress passed the Deficit Reduction Act of 1984 (P.L. 98-369), it was possible for a mother to exclude from the AFDC assistance unit a child who was not needy because of having his own social security survivor's check, drawn on the work record of his father. The social security survivor child was not required by AFDC rules to share his income with siblings. Indeed, the U.S. Supreme Court in 1972 upheld a lower court ruling that AFDC benefits could not be reduced to a family because of the presumed availability to it of payments "which belong to one or more members of that family." [17] (In 1980, however, HHS proposed a regulation to permit a mother to include a social security child beneficiary under 18 years old in the assistance unit, noting that in some cases his sharing of income would qualify him for Medicaid.) The 1984 law requires all siblings other than Supplemental Security Income (SSI) recipients to be included in the AFDC assistance unit. Thus, if the family applies for AFDC, a child who receives social security now must share his check with his half-brothers and sisters.

CHARACTERISTICS OF RECIPIENTS

BASIS OF ENTITLEMENT

Ninety percent of the children who received social security benefits at the end of 1983 were under 18 years old; the rest were students who would be phased out of the program by May 1985. Of the children under 18, almost three out of five were entitled because one of their parents had died, 30 percent were children of disabled workers, and the remaining 11 percent were children of retired workers.

RACE

In a chapter entitled "Social Security and Minorities," the 1979 Advisory Council of Social Security said that minorities were less likely than others to get retirement benefits from social security because of their shorter life expentacy. However, it said, "this aspect of the system is offset by the fact that minorities are more likely than whites to quality for social security disability and survivors' benefits." [18]

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[17] *Craig* v. *Gilliard*, 331 F. Supp. 587 (W.D. North Carolina 1971).

At the end of 1982, blacks, who constituted 12 percent of the overall population, were only 9.7 percent of social security beneficiaries. However, black children, who represented about 15 percent of the U.S. child population, accounted for a much larger share of social security child beneficiaries. As table 6-20 shows, black children were 21 percent of children receiving survivor benefits, 20.4 percent of those receiving benefits as dependents of disabled workers, and 18.6 percent of those with disabled parents. "Other" nonwhites also had a relatively high incidence of social security child benefits.

As noted earlier, black workers tend to have more children, die earlier, and become disabled before retirement more often than whites. Although black children are over-represented in the social security recipient population, the percent of widowed mothers who receive social security is smaller among blacks than whites (noted in chapter IV).

TABLE 6-20.—PERCENTAGE DISTRIBUTION, OASDI BENEFITS FOR CHILDREN, BY RACE, END OF 1982

	Percentage distribution of benefits		
	White	Black	Other
Total U.S. children	81.8	15.0	3.1
Children under 18 enrolled in social security	75.3	18.6	6.1
Of retired workers	75.3	20.4	3.4
Of dead workers	75.6	21.0	3.4

Source: U.S. Department of Health and Human Services. Social Security Bulletin Annual Statistical Supplements, 1983. Table 59.

The advisory council report said that Hispanic children like blacks, were overrepresented in the social security population. They cited 1977 data from five southwestern States (Arizona, California, Colorado, New Mexico, and Texas). The report said Hispanics represented about 15 percent of the total population of the five States, but 18.7 percent of the children drawing benefits because one of their parents had died.

TRENDS

NUMBERS OF BENEFICIARIES

The share of children under 18 who receive social security benefits rose from 3 percent in 1960 to 5.7 percent in 1975 and then began to decline, falling to 4.5 percent in 1983. Student beneficiaries accounted for 19 percent of total children enrolled in 1981, then fell to 14 percent in 1982 and to 9 percent in 1983. The number of child beneficiaries peaked in the mid-1970's, reflecting the earlier baby boom. Numbers of child and parent beneficiaries of social security, 1960–1983, are presented in table 6-21.

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[18] Department of Health and Human Services. Social Security Financing and Benefits, Report of the 1979 Advisory Council. Washington, 1979. p. 114.

TABLE 6-21.—CHILD AND PARENT BENEFICIARIES OF SOCIAL SECURITY 1960–83 [1]

End of year	Social Security beneficiaries (in thousands)				Total children under 18 in population [2] (millions)
	Children under 18	Students 18 to 21	Total children	Total parents	
1960	1,896.4	([3])	1,896.4	556.7	64.2
1965	2,688.6	205.7	2,894.3	787.6	70.4
1970	3,314.6	537.2	3,851.8	913.9	70.0
1975	3,835.4	774.3	4,609.7	1,141.5	67.2
1980	3,423.1	733.3	4,156.4	1,104.7	63.7
1981	3,206.5	760.5	3,967.0	1,059.2	63.2
1982	2,933.8	476.3	3,410.1	940.3	62.8
1983	2,811.5	293.5	3,105.0	726.5	62.6

[1] Excludes disabled "children" over age 18 who were disabled before age 22.

[2] As of July 1, of year named, except for 1960 (April).

[3] No program.

Source: U.S. Department of Health and Human Services. Social Security Bulletin. Annual Statistical Supplement, 1983. Table 87 (children), table 85 (mothers and fathers), table 26 (widowed mothers and fathers).

BENEFIT PAYMENTS

Table 6-22 shows that overall benefits paid to children (including students 18 and older) and parents caring for children rose from $1.4 billion in 1960 to $12.7 billion in 1981 and then declined, reflecting population trends and 1981 program cutbacks, to $10.5 billion in 1983. Adjusted for price inflation, benefits increased from $4.7 billion in 1960 to $14.2 billion in 1980 (constant 1983 dollars), then dropped to $10.5 billion in 1983. Benefits for children under 18 did not decline, but rose steadily from $1.1 billion in 1960 to $8.0 billion in 1983 (current dollars). All the decline was in student and parents' benefits.

TABLE 6-22.—BENEFITS PAID TO CHILDREN AND THEIR PARENT CARETAKERS, 1960–83

[In millions]

Year	Benefits to—			Total benefits	
	Children under 18	Students 18–21	Parents	Current dollars	Constant 1983 dollars
1960	$1,064.2		$343	$1,407.2	$4,737.9
1965	1,625.2	$164.7	497	2,286.9	7,225.5
1970	2,584.4	536.1	738	3,858.5	9,899.5

TABLE 6-22.—BENEFITS PAID TO CHILDREN AND THEIR PARENT CARETAKERS, 1960–83—Continued

[In millions]

Year	Benefits to—			Total benefits	
	Children under 18	Students 18–21	Parents	Current dollars	Constant 1983 dollars
1975	4,739.9	1,254.7	1,472	7,466.6	13,819.5
1980	7,290.9	2,005.3	2,410	11,706.2	14,153.5
1981	7,747.5	2,360.4	2,574	12,681.9	13,895.7
1982	7,903.5	1,301.7	2,540	11,745.2	12,123.0
1983	8,046.7	[2] 478.1	1,991	10,515.8	10,515.8

[1] Benefits represent December payments of year shown multiplied by 12.

[2] December 1983 payments multiplied by 8 (benefits were suspended in summer).

Source: U.S. Department of Health and Human Service. Social Security Bulletin. Annual Statistical Supplement, 1983. Table 87 (children), table 85, (mothers and fathers), table 61 (widowed mothers and fathers).

RACE

As table 6-23 shows, the proportion of children enrolled in social security who are nonwhite has risen steadily over the years, from 14.8 percent in 1960 to 25.7 percent in 1982.

TABLE 6-23.—RACIAL COMPOSITION OF CHILDREN RECEIVING SOCIAL SECURITY BENEFITS, 1960–82

[In percent]

End of year	White	Nonwhite		
		Total	Black	Other
1960	85.2	14.8	NA	NA
1965	82.6	18.4	NA	NA
1970	78.7	21.3	18.9	2.3
1975	76.3	23.7	20.7	2.9
1980	74.9	25.1	21.4	3.6
1981	NA	NA	NA	NA
1982	74.3	25.7	21.5	4.1

Source: Annual editions of Annual Statistical Supplement, Social Security Bulletin.

6. The Food Stamp Program and Poor Children

INTRODUCTION

The Food Stamp Program is designed to increase the food purchasing power of low-income households so that they can buy a nutritionally adequate low-cost diet. The program assumes that a participating household should be able to devote 30 percent of its countable[19] cash monthly income to food buying. Food stamp benefits make up the difference between that amount and the sum determined to be sufficient to buy an adequate low-cost diet, namely, the price of the Agriculture Department's Thrifty Food Plan. Thus, an eligible household with no countable monthly cash income receives the maximum food stamp allotment for its size, while one with some countable cash income receives a lesser amount.

ELIGIBILITY

Food stamp benefits are available to nearly all households meeting income and liquid assets tests for need, as long as certain work registration and other employment-related requirements are fulfilled. Unlike other welfare programs, the Food Stamp Program has almost no categorical restrictions on eligibility, such as the AFDC requirement for deprivation of parental support or the SSI age or disability requirements. As a result, food stamps are available to a broad spectrum of low-income families with children, whether working or not.[20]

BENEFITS

Food stamp benefits are calculated by subtracting 30 percent of an eligible household's countable monthly income from the maximum allotment for the household's size. Maximum monthly benefits (for those with no countable income) average in fiscal year 1985 about $70 a person, depending on family size (for example, $79 for a one-person household; $264 for a four-person household). However, since most recipients have some cash income, average benefits received are lower. Benefits received in early 1985 averaged $45 per recipient. Until 1979, participants were required to buy their food stamps. Households paid into the program varying proportion of income, up to 30 percent, and all received the maximum allotment.

For households with children, average monthly benefits are estimated at about $160 a household, compared with maximum monthly benefits for the typical three-person food stamp household with children of $208. For the average household with children, the maximum food stamp benefit provides about 30 percent of the monthly equivalent of a poverty level income, which is $690; and the average benefit received provides about 23 percent. The proportion of a poverty level income provided by food stamps varies with cash income and household size (the maximum benefit equals only 18 percent of poverty income for a one-person household, and 26 percent for a two-person household, although for most household sizes it is at or close to 30 percent of poverty).

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[19] Not all of a household's income is actually counted when determining eligibility and benefits. Moreover, noncash income is not counted at all. In effect, this means that, at most, the program assumes that households can spend 20–25 percent of their gross income on food.

[20] More details about the history, operation, and outlays of the food stamp program are in Appendix A. Major legislative developments of the program since 1960 are in Appendix E.

CHARACTERISTICS AND TRENDS [21]

CHILDREN BENEFITING FROM FOOD STAMPS

The proportion of food stamp recipients who are children has been declining over the years for which data are available. This appears to be due primarily to the repeal of the purchase requirement in early 1979. This change increased participation among eligible elderly households much more dramatically than among other types of households.[22] The monthly proportion of children in the food stamp recipient population dropped from 54 percent in 1978 to 50 percent in 1982 (see Table 6-24).[23] The absolute monthly number of children provided benefits through the food stamp program increased from 9 million in 1978 to 9.8 million in 1982, an increase of 9 percent. In the same period the number of poor poor children counted by the census Bureau grew from 10.2 to 13.6 million, a rise of 3.4 million or 34 percent. Thus, the growth rate in the population of poor children was almost four times that of the number of child recipients of food stamps in a representative month. (The number of child recipients of food stamps peaked in 1980 at 10.3 million, and Census Bureau surveys of recipients of non-cash benefits show a related drop in the proportion of food stamp households with children between 1980 and 1983, from 66 to 64 percent).

TABLE 6-24.—THE FOOD STAMP PROGRAM AND POOR CHILDREN: SUMMARY DATA, 1978-82

	1978	1979	1980	1981	1982
Number of children receiving food stamps (in thousands)	8,950	8,020	10,250	9,720	9,750
Share of all recipients (percent)	54	47	50	47	50
Total benefits to households with children (in millions):					
Current dollars	$4,200	$4,580	$6,230	$7,360	$7,440
Constant dollars	$6,214	$6,090	$7,298	$8,099	$7,440
Share of all benefits (percent)	84	72	80	77	79
Poverty rate of food stamp recipient households with children (percent)	NA	NA	87	90	96
Poverty rate for all recipient households (percent)	83	82	87	90	96
Proportion of poor food stamp households with children having incomes below 50 percent of poverty (percent)	NA	NA	27	39	51

Note.—All data, except the proportion of poor served, are for the month of the survey. Benefits received by households with children have been calculated by multiplying the monthly aggregate benefit shown in the survey by 12, and, in general understate the total benefits received.

Source: Estimated from USDA surveys of recipient characteristics.

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[21] See Table 6-22 for summary data.

[22] The 1981 USDA report on the effects of the 1977 Food Stamp Act notes that, between November 1978 and November 1979 (the elimination of the purchase requirement generally occurred in early 1979), the number of elderly recipients increased by 42 percent, compared to a 26 percent increase for nonelderly participants. The higher percentage increase for the elderly was explained by: (1) their very low-rate of pre-1979 participation, creating a large pool of potential entrants; and (2) some evidence that inability to come up with the cash needed for a purchase requirement was more of a problem among the elderly than the nonelderly.

[23] Estimates from USDA surveys of characteristics of food stamp recipients, 1978 and 1982.

SHARE OF BENEFITS RECEIVED BY HOUSEHOLDS WITH CHILDREN

A related decrease in the proportion of food stamp benefits going to households with children also occurred over the period for which data are available.[24] The value of food stamp benefits provided to households with children declined from an estimated 84 percent of total benefits in 1978, to 79 percent in 1982.[25] However, since total and average food stamp benefits increased substantially, absolute benefits going to such households also rose. Benefits to households with children rose from $6.2 billion in 1978 to $7.4 billion in 1982 (constant 1982 dollars). The 1982 amount was 8 percent below the 1981 peak of $8.1 billion.

POVERTY STATUS OF RECIPIENTS

For the slightly shorter period for which data are available on the poverty status of food stamp recipient households with children, it appears that the proportion of such households that are poor has increased significantly.[26]

Poor on basis of monthly income

The proportion of food stamp households with children that have gross monthly cash income below the Federal poverty income guidelines has increased from approximately 85 percent in 1979 to 96 percent—an increase of 13 percent.[27] This parallels a similar increase among all participating households, from 82 to 95 percent, and is due to both the income restrictions placed on program participation in 1981,[28] and to the failure of many recipients' income to keep up with inflation. As noted in Chapter II, the poverty measure is adjusted annually for inflation.[29]

Poor on basis of annual income

The proportion of food stamp households with children that have annual pre-tax cash income below the Census Bureau's poverty thresholds also has risen. However, the annual fractions generally are smaller because the longer accounting period adjusts for shorter-term poverty. By Census surveys, the proportion of recipient households with children having below-poverty cash incomes increased from 65 percent in 1980 to 73 percent in 1982 and to 75 percent in 1983, a three-year increase of 15 percent.[30] This matched almost exactly the rise in the poverty rate for all households receiving food stamps, although it was higher than that for households without children.

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[24] The earliest data available from which to make estimates are from the February 1978 USDA survey of food stamp household characteristics; the most recent, from August 1982.

[25] Estimates from USDA characteristics surveys of 1978 and 1982.

[26] The earliest data available are from the November 1979 USDA survey.

[27] Estimates from USDA characteristics surveys of 1979 and 1982.

[28] Legislation passed in 1981 required that eligible nonelderly, nondisabled households have incomes below 130 percent of poverty.

[29] Average gross monthly income grew only 13 percent from 1979 to 1982, whereas overall inflation measured by the consumer price index (and used to adjust the poverty measure) rose by 33 percent.

[30] Bureau of the Census. Characteristics of Households and Persons Receiving Selected Noncash Benefits. Series P-60. Nos. 131 (1980), 143 (1982), and 148 (1983).

DEGREE OF POVERTY

Another way of looking at the poverty status of recipient households with children is to review their composition by income class. This approach gives an overall picture of poverty trends among food stamp households with children different from that shown by changes in the poverty rate. From 1980 to 1982, out of all poor recipient households with children, the share with monthly cash incomes below one-half of the appropriate poverty threshold (the "very poor") grew from 27 to 51 percent, outstripping the rise in very poor households among all poor food stamp recipients (an increase from 27 to 44 percent).[31] Out of all food stamp households with children, the estimated proportion who were very poor increased from 24 percent in 1980 to 35 percent in 1981 and to 49 percent in 1982.

SHARE OF POOR RECEIVING FOOD STAMPS

Households with children

The degree to which poor households with children participate in the food stamp program appears to have remained stable in recent years. Out of all households with children that have annual cash income below the poverty threshold, the proportion that received food stamps at any time during the year ranged between 56 and 59 percent in 1979–1983.[32] (See Table 6–25.)

This measure may mis-state the degree to which poor families with children are served by the food stamp program. Those families whose incomes over the short-term were below poverty are not considered, and it is likely that there are both more poor households with children and more households served if one includes the short-term poor. Data on which to make an estimate that includes short-term poor are not available.

Children

From 1978 to 1982 the number of all children who received food stamps in a survey month declined as a fraction of the number of children poor during the year. As shown in Table 6–25, the estimated share dropped from 88 percent in 1978 to 71 percent in 1982, a decline of 19 percent. The number of poor children who received food stamps in a survey month also declined as a fraction of the number of children poor during the year, but less sharply, reflecting the concentration of more aid on the poor. The share dropped from 76 percednt in 1978 to 69 percent in 1982, a decrease of nine percent.

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[31] USDA surveys of 1980 and 1982.

[32] Census Bureau non-cash-benefit recipient surveys for 1979 and 1983.

TABLE 6-25.—PERCENT OF POOR CHILDREN AIDED BY FOOD STAMPS

	1978	1979	1980	1981	1982
Poor households with children on food stamps as a proportion of all poor households with children (annual basis)	NA	56	59	58	59
Poor children receiving food stamps (survey month) as a proportion of the number of poor children (annual basis)	76	65	79	71	69
All children receiving food stamps (survey month) as a proportion of the number of poor children (annual basis)	88	79	87	78	71

Sources: For row 1, Census Bureau noncash benefit surveys. Rows 2 and 3, estimates from U.S. Department of Agriculture surveys of recipient characteristics.

7. Medicaid and Poor Children

INTRODUCTION

The Medicaid program (authorized under Title XIX of the Social Security Act) is a federally aided, State-operated and administered program of medical assistance for low-income persons who are aged, blind, disabled, or members of families with dependent children. The Administration estimated in February 1985 that there would be about 22.5 million Medicaid recipients in fiscal year 1986 of whom roughly 45 percent would be children.

Within Federal guidelines, each State designs and administers its own program. Therefore, there is substantial variation among the States in terms of eligibility requirements, services offered, number of persons covered and the Federal and State dollars spent.[33]

ELIGIBILITY

Access to health care for low-income children has improved significantly since the 1960s, in part because of Federal programs established to provide health services to needy persons. Medicaid, the largest such program, is a Federal-State entitlement program that purchases medical care for certain low-income persons. Federal funds finance an estimated 54 percent of all Medicaid payments.

CATEGORICALLY NEEDY

Eligibility for Medicaid is linked to actual or potential receipt of cash assistance under the federally assisted Aid to Families With Dependent Children (AFDC) program or the Federal Supplemental Security Income (SSI) program for the aged, blind, and disabled. All States are required to cover the "categorically needy" under their Medicaid programs. Persons who States must cover as categorically needy include all AFDC recipients and most recipients of SSI payments.

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[33] More details about the history, operation, and outlays of Medicaid are in Appendix A. Major legislative developments of the program since its 1965 enactement are in Appendix E.

As noted earlier in the AFDC part of this chapter, AFDC payments are made to families with children where one parent is absent; incapacitated; or, in some States, "unemployed" (works less than 100 hours a month). State-established income criteria differ markedly among the States. Since Medicaid eligibility is generally tied to receipt of cash assistance, the income standard used by a State for determining AFDC eligibility directly affects the size of its Medicaid population.

In addition to the income disparities among States, differences exist in terms of groups covered under an AFDC plan. For example, a State may cover under its AFDC program families with unemployed parents or pregnant women without other children in the home (also known as first-time pregnant women) meeting AFDC income and resources requirements. While States may not begin making AFDC cash payments to first-time pregnant women until the 6 month of pregnancy, they are required to extend Medicaid protection to this group from the medical verification of pregnancy. Similarly, they are required to extend Medicaid protection to pregnant women from the medical verification of pregnancy in two-parent families where the principal breadwinner is unemployed.

States are required to extend Medicaid protection to certain additional groups though they are not actually receiving an AFDC cash payment. These include persons denied a cash payment solely because the payment amount would be less than $10. Coverage must also be extended for four additional months to certain families whose cash assistance has been terminated; this extension applies only to families who received AFDC for at least three of the preceding six months and who lost coverage due to increased earnings or increased hours of employment. Since October 1, 1984, States also have been required to extend Medicaid coverage to families who lose their eligibility for AFDC and, therefore, Medicaid after 4 months of work because the AFDC rule requiring States to disregard a fraction of every dollar earned can no longer be applied to them.

The AFDC law requires States to calculate available income from a recipient's earnings differently, depending upon duration of work. During the first 4 months of a job States must disregard $30, a standard allowance ($75), child care costs up to a ceiling, and one-third of remaining earnings. The one-thrid fractional disregard expires after 4 months, the $30 disregard after 12. States are now required to provide 9 months of Medicaid coverage to families who lose their AFDC because of expiration of the disregard of one-third of residual earnings (and may extend coverage for an additional 6 months to families who would be eligible for AFDC if their earnings were treated like those of new workers). Families who lost their AFDC eligibility before October 1, 1984, also are eligible for Medicaid for the same time period provided that: (a) they disclose any private health insurance coverage at the time of application; (b) they apply within 6 months from the date the implementing regulations become final; and, (c) they would have been continuously eligible for AFDC if their countable earnings had been calculated by the disregard rules then applicable to new workers.

In addition to groups that States must cover, there are a number of additional groups that States may cover. Of particular importance is the category known as "Ribicoff children." These are individuals under age 21, or 20, or 19, or 18 who do not meet the definition of a dependent child under AFDC but, whose income and resources fall within a State's AFDC limits. For example, they may be ineligible for AFDC because both parents live at home and the principal breadwinner has a job. States may extend coverage to all Ribicoff children or limit protection to reasonable categories of children, such as those in foster homes, subsidized adoptions, psychiatric institutions, or intermediate care facilities (ICFs). Since October 1, 1984, States have been required to extend Medicaid coverage to all such children up to age 5 born on or after October 1, 1983. Therefore, by October 1, 1988, States will be required to cover all Ribicoff children up to age 5.

MEDICALLY NEEDY

In addition to the categorically needy, States may cover the "medically needy" under their Medicaid programs. Thirty-four States and jurisdictions have elected this option. The medically needy are persons (1) who are aged, blind, disabled, or members of families with dependent children; and (2) whose income, after deducting incurred medical expenses (i.e., "spending down"), falls below the State's medically needy income eligibility level. The medically needy level cannot exceed 133⅓ percent of the maximum AFDC payment for the same size family. For example, if a two-person family's income is $300 and the State maximum AFDC benefit for two persons is $275, the family must have $25 in medical expenses before it becomes eligible. Applicants also must meet State-established resource standards. In determining income and resource eligibility of an individual for the medically needy program, a State agency may not count as income or resources any amounts that would not be counted in determining the individual's eligibility for categorically needy coverage. A State may limit services under a medically needy program to ambulatory services for children and prenatal and delivery services for pregnant women.

SHARE OF MEDICAID BENEFITS FOR CHILDREN

From 1973 to 1983, the share of Medicaid outlays made on behalf of AFDC type children under age 21 and adults in AFDC families declined from 33.2 percent to 25.7 percent. Further, the share for "other persons," chiefly Ribicoff children (defined above), declined from 5.2 percent to 2.2 percent. In constant 1983 dollars, the sums for these three groups increased from $5.9 billion in 1973 to $9.0 billion in 1983 (Table 6-26), a rise of 53 percent. However, Medicaid spending on aged, disabled, or blind adults climbed more than twice as fast, by 122 percent.

TABLE 6-26.—MEDICAID PAYMENTS MADE FOR CHILDREN AND THEIR PARENTS, 1973 AND 1983

[Millions of 1983 dollars]

	1973	1983	Percent change
AFDC-type children under 21	$2,540	$3,822	+50
Adult in AFDC families	$2,576	$4,483	+74
"Other persons" (chiefly Ribicoff children)	$805	$725	−10
Children and their parents	$5,921	$9,030	+53
Total Medicaid outlays	$15,389	$32,351	
Percentage share of total for children and their families	38.4	27.9	

Note.—Table includes data from the territories. Totals may not add because of rounding.

Source: Social Security Bulletin, Annual Statistical Supplement, 1983.

RELATIONSHIP OF MEDICAID COVERAGE TO POVERTY OF CHILDREN

The estimates in this section are based on data obtained annually from the Current Population Survey (CPS) conducted by the Bureau of the Census and from supplementary surveys. Since the CPS estimates are based on a sample, they may differ somewhat from figures that would have been obtained if a complete census had been taken. The CPS data also are lower than program data from the Health Care Financing Administration (HCFA) because recipients tend to underreport their benefits in these surveys. Further, the CPS totals do not include children in institutions and may not include "Ribicoff children." While the above considerations must be taken into account, general trends can be observed from the data.

SHARE OF POOR CHILDREN COVERED

Roughly one-half of all poor children (defined as children under 18 whose family income is below the poverty threshold) are covered by Medicaid (see Table 6-24). One reason that this proportion is not larger is that automatic Medicaid eligibility is generally linked to the receipt of AFDC cash assistance. This has restricted Medicaid coverage in part because AFDC assistance is available only to families where one parent is absent; incapacitated; or in certain States, unemployed. To receive AFDC, a family must also meet a certain cash assistance standard established by each State. In all States except for Alaska, AFDC cash standards are below the Federal poverty threshold (estimated nation-wide for 1984 at $8,280 a year for a family of three). Therefore, many low-income families are not automatically eligible for Medicaid, though some may be able to obtain coverage under a State's medically needy program. Further, Medicaid eligibility requirements can vary widely among the States and families can often go on and off the AFDC (and therefore Medicaid) rolls during the course of a year.

TRENDS IN COVERAGE BY POVERTY STATUS

The percentage of poor children covered by Medicaid has been relatively consistent over time. In fact, the 1979 and 1983 percentages are identical—48.5 percent. This figure has not varied by more than two percentage points over the five-year span (see Table 6-27).

The share of very poor children with Medicaid coverage increased by 14 percent in those 5 years. In 1979, fewer than half (47.8 percent) of the children in families whose annual income was below 50 percent of the poverty threshold were covered by Medicaid; in 1983, more than half (54.4 percent) of such children were in the program. Even so, these "poorest" children still had a lower Medicaid coverage rate than those with family income between 50 and 74 percent of the poverty threshold. The latter group consistently has had the highest rate of Medicaid coverage (55.5 percent in 1979, 57.2 percent in 1983).

Medicaid coverage levels for poor children in families with incomes between 0.75 and 1.00 of the poverty line were reduced by 31 percent between 1979 and 1983 (from 42.6 percent to 29.6 percent). This sharp drop is partially attributable to the failure of AFDC benefit levels to keep pace with inflation. This has pushed AFDC eligibility ceilings in many States further below the national poverty line. As a result, more poor families are no longer considered poor enough to receive AFDC. Since Medicaid is linked to AFDC, these families also lose their automatic Medicaid eligibility (though some may be able to obtain medically needy coverage in certain States.)

TABLE 6-27.—CHILDREN IN POVERTY AND MEDICAID COVERAGE, ALL CHILDREN UNDER 18

[Numbers in thousands]

Year	Poverty ratio less than 0.5			Poverty ratio between 0.5 and 0.74			Poverty ratio between 0.75 and 1.00			All poor children		
	Poor children	Covered by Medicaid	Percent	Poor children	Covered by Medicaid	Percent	Poor children	Covered by Medicaid	Percent	Poor children	Covered by Medicaid	Percent
1979	3,652	1,747	47.8	3,181	1,764	55.5	3,278	1,396	42.6	10,111	4,907	48.5
1980	4,555	2,239	49.2	3,655	1,972	54.0	3,553	1,314	37.0	11,764	5,525	47.0
1981	4,832	2,547	52.7	3,833	1,980	51.7	3,840	1,284	33.4	12,505	5,811	46.5
1982	5,608	2,921	52.1	4,415	2,429	55.0	3,625	1,079	29.8	13,647	6,429	47.1
1983	5,944	3,232	54.4	4,105	2,349	57.2	3,759	1,112	29.6	13,807	6,693	48.5

Note.—Based on Census ("Orshansky") poverty levels. Totals do not include children in institutions and may not include "Ribicoff children."

Source: March Current Population Survey (CPS) 1980-84. Table prepared by CRS.

Tables 6-28 and 6-29 show that Medicaid coverage levels differ slightly between poor children under 5 years old and poor children between 5 and 17 years old. Because DEFRA mandates coverage of certain categories of some young children whose coverage was previously optional with the States, this difference is likely to increase.

Approximately one-fifth of the children covered by Medicaid in 1983 were in families with annual incomes above the poverty line (see Table 6-30). This represents a drop from 1979, when roughly one-third of the children covered by Medicaid were in such families. This is partially because States in recent years have targeted their resources both for AFDC and Medicaid on the lowest income groups.

TABLE 6-28.—CHILDREN IN POVERTY AND MEDICAID COVERAGE, CHILDREN UNDER 5

[Numbers in thousands]

Year	Poverty ratio less than 0.5			Poverty ratio between 0.5 and 0.74			Poverty ratio between 0.75 and 1.00			All poor children		
	Poor children	Covered by Medicaid	Percent	Poor children	Covered by Medicaid	Percent	Poor children	Covered by Medicaid	Percent	Poor children	Covered by Medicaid	Percent
1979	1,136	582	51.2	852	492	57.7	910	364	40.0	2,897	1,438	49.6
1980	1,466	761	51.9	1,023	514	50.2	1,046	394	37.7	3,534	1,669	47.2
1981	1,529	862	56.4	1,132	626	55.3	1,163	433	37.2	3,823	1,921	50.2
1982	1,828	1,100	60.2	1,347	815	60.5	1,053	314	29.8	4,240	2,229	52.7
1983	1,990	1,166	58.6	1,363	837	61.4	1,121	366	32.6	4,473	2,369	53.0

Note.—Based on Census ("Orshansky") poverty levels. Totals do not include children in institutions and may not include "Ribicoff children."

Source: March Current Population Survey (CPS) 1980-1984. Table prepared by CRS.

TABLE 6-29.—CHILDREN IN POVERTY AND MEDICAID COVERAGE, CHILDREN BETWEEN 5 AND 17

[Numbers in thousands]

Year	Poverty ratio less than 0.5			Poverty ratio between 0.5 and 0.74			Poverty ratio between 0.75 and 1.00			All poor children		
	Poor children	Covered by Medicaid	Percent	Poor children	Covered by Medicaid	Percent	Poor children	Covered by Medicaid	Percent	Poor children	Covered by Medicaid	Percent
1979	2,517	1,166	46.3	2,329	1,272	54.6	2,368	1,032	43.6	7,214	3,470	48.1
1980	3,090	1,478	47.8	2,633	1,459	55.4	2,506	920	36.7	8,229	3,857	46.9
1981	3,303	1,685	51.0	2,702	1,355	50.1	2,667	851	31.8	8.628	3,891	44.8
1982	3,780	1,821	48.2	3,068	1,614	52.6	2,561	765	29.9	9,407	4,200	44.6
1983	3,954	2,066	52.3	2,742	1,512	55.1	2,638	745	28.2	9,334	4,323	46.3

Note.—Based on Census ("Orshansky") poverty levels. Totals do not include children in institutions and may not include "Ribicoff children."

Source: March Current Population Survey (CPS) 1980–1984. Table prepared by CRS.

TABLE 6-30.—CHILDREN ENROLLED IN MEDICAID, BY POVERTY STATUS AND AGE, 1979-83

[Numbers in thousands]

Year	Poor children		Nonpoor children		Total	
	Number	Percent	Number	Percent	Number	Percent
			All children under 18			
1979	4,907	66.0	2,524	34.0	7,431	100.0
1980	5,525	70.0	2,366	30.0	7,891	100.0
1981	5,811	71.2	2,345	28.8	8,156	100.0
1982	6,429	78.5	1,761	21.5	8,190	100.0
1983	6,693	81.3	1,537	18.7	8,230	100.0
			Children under 5			
1979	1,438	66.1	736	33.9	2,174	100.0
1980	1,669	72.1	645	279	2,314	100.0
1981	1,921	71.4	770	28.6	2,691	100.0
1982	2,229	77.6	645	22.4	2,874	100.0
1983	2,369	80.5	574	19.5	2,943	100.0
			Children between 5 and 17			
1979	3,470	66.0	1,788	34.0	5,258	100.0
1980	3,857	69.1	1,723	30.9	5,580	100.0
1981	3,891	71.2	1,575	28.8	5,466	100.0
1982	4,200	79.0	1,115	21.0	5,315	100.0
1983	4,323	81.8	963	18.2	5,286	100.0

Note.—Based on Census (Orshansky) poverty levels.

Source: March Current Population Survey (CPS), 1980-1984. Table prepared by CRS.

8. Subsidized Housing and Poor Children

INTRODUCTION

Federal subsidies for housing provide substantial benefits to about one million lower-income households with children, forming a major component of Federal efforts to aid poor children. This section of chapter 6 examines trends in the five major Federal housing aid programs affecting poor children: Low-rent public housing, "Section 8" rent subsidies for those in existing or moderately rehabilitated housing; "Section 8" recent subsidies for those in new or substantially rehabilitiated housing; "Section 236" interst reduction payments for low-income rental housing; and rent supplements for those in otherwise-assisted housing. These programs are the major ones for which data about recipients are available.[34]

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[34] Because of the lack of data on pertinent recipient characteristics or because they are focused on other population groups (e.g., the elderly), a number of Federal housing programs will not be reviewed: Farmers Home Administration (FmHA) programs; "Section 235" homeownership assistance; programs for the elderly and disabled such as the "Section 202" loans; and "Section 221(d)(3)" mortgages.

BENEFITS

In general, these programs help to pay the rent of eligible families by limiting the share of countable income that a family must spend on rent to 30 percent (the same fraction that the Food Stamp Program expects households to spend on food). The housing programs make up for the difference between 30 percent of the tenant's countable income and, generally speaking, the fair market rent. In fiscal year 1983, subsidies averaged $240 monthly to families in the Section 8 program, $217 to those in public housing, and $103 to those in the Section 236 program; some Section 236 recipients also receive rent supplements.

ELIGIBILITY

The basic eligibility rule in most of these programs is that most applicants' countable family income cannot exceed 50 percent of the area median family income, adjusted by formula for family size. (A small share of new rentals can go to families with income between 50 and 80 percent of the area median, however. Until recent years 80 percent of the median, the "low-income" standards was the basic limit.)[35] The 50 percent of median income standard is defined as "very-low-income" in housing legislation. The supply of housing and limited appropriations have restricted aid to financially eligible families.

TRENDS AND CHARACTERISTICS

Despite a significant slowdown since 1981, Federal housing assistance for the lower income population has increased substantially over the past decade. Furthermore, as earlier commitments are implemented, outlays will continue to increase for several years, but at a slower rate.[36] Measured from 1974, the year in which the present system was put in place, the number of assisted housing units in major programs has more than doubled: from about 1.5 million in 1974 to over 3.2 million units in 1984.[37] Housing assistance outlays by the Department of Housing and Urban Development (HUD) have gone from around $3.9 billion in 1974, to nearly $10 billion in 1984, in constant 1984 dollars.[38] (In addition to rental subsidies of the five programs described in this report, these outlays cover public housing operating subsidies and other HUD programs.)

This large expansion in the Federal effort greatly added to the housing aid available to lower income persons and represented a pronounced shift in the types of aid provided. HUD estimates covering the programs in this chapter indicate that the proportion of assisted units containing families with children declined about 9 percent, from 46 to 42 percent, from 1974 to 1981.[39] However, the Census Bureau's surveys for non-cash benefits received by the lower income population show an uneven trend from 1980 to 1983 in the proportion of households with children among all households living in "publicly owned or other subsidized renter-occupied housing." [40] This fraction climbed from 46.2 percent in 1980 to 49.7 percent in 1982 and dropped to 46.3 percent in 1983, when 1.5 million households out of a total of 3.2 million were families with children. The Census Bureau surveys are comprehensive and include all HUD assistance, programs of the Farmers Home Administration, and non-Federal programs.

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[35] For their history and for details about operation of these programs, see Appendix A. For major legislative developments in housing programs since 1960, see Appendix E.

[36] U.S. Library of Congress. Congressional Research Service. Trends in Funding and Numbers of Households in HUD-Assisted Housing: Fiscal Years 1974-1984. [by] Grace Milgram. December 28, 1983.

[37] The HUD programs only. Trends in Subsidized Housing: 1974-1981. [by] Paul Burke. Division of Housing and Demographic Affairs, Office of Economic Affairs, Department of Housing and Urban Development. March 1984.

[38] See footnote number 36.

Table 6-31 shows the number of units for families with children aided by the five major programs considered in this chapter rose 74 percent from 1974 to 1981. In the same period the number of units for adult-only families rose 102 percent. Thus, the share of units for families with children declined, as shown by Table 6-32 (summary table). Units for families with children totaled 1,178,000 in 1981,[41] distributed as follows: public housing, 41 percent; Section 8 existing housing, 28 percent; Section 236, 16 percent; Section 8 new housing, 9 percent; and rent supplements, 6 percent.

TABLE 6-31.—FEDERAL HOUSING ASSISTANCE, MAJOR PROGRAMS AIDING FAMILIES WITH CHILDREN, 1974-81

	Housing units (in thousands)		Percentage change
	1974	1981	
Public housing	477	480	+2
Section 8 (existing housing)	([1])	332	NA
Section 8 (new housing)	([1])	104	NA
Section 236 payments	119	188	+58
Rent supplements	80	74	-7
Total units (families with children)	676	1,178	+74

[1] No program.

Source: Trends in subsidized Housing: 1974-81. [by] Paul Burke. Division of Housing and Demographic Affairs, Office of Economic Affairs, Department of Housing and Urban Development. March 1984.

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[39] See footnote number 37.

[40] Bureau of the Census. Characteristics of Households and Persons Receiving Selected Noncash Benefits. Series P-60. Nos. 131 (1981), 136 (1981), 143 (1982), and 148 (1983).

[41] The Census Bureau survey for 1981 reported that a total of 1,392,000 households with children lived in publicly owned housing or in other subsidized rental units.

TABLE 6-32.—TRENDS IN FEDERAL HOUSING ASSISTANCE: SUMMARY TABLE, 1974-81 [1]

[Units in thousands]

	1974			1981		
	Below 30 percent median income	Below 50 percent median income	All income levels [2]	Below 30 percent median income	Below 50 percent median income	All income levels [2]
All susidized units	782	1,220	1,477	1,663	2,503	2,816
With children (percent)	37	42	46	38	40	42
Adults only (percent)	63	58	54	62	60	58
Public housing units	686	994	1,109	773	1,044	1,143
With children (percent)	36	41	43	36	40	42
Adults only (percent)	64	59	57	64	60	58
Section 8, existing [3]	([4])	([4])	([4])	411	584	626
With children (percent)				49	51	53
Adults only (percent)				51	49	47
Section 8, new [5]	([4])	([4])	([4])	242	401	450
With children (percent)				20	22	23
Adults only (percent)				80	78	77
Section 236, payments [6]	([7])	85	220	105	293	447
With children (percent)	([7])	41	54	36	38	42
Adults only (percent)	([7])	59	46	64	62	58
Rent supplement units	96	141	148	109	143	150
With children (percent)	49	53	54	44	48	49
Adults only (percent)	51	47	46	56	52	51

[1] Includes section 8 program, public housing, section 236 program, and rent supplements.

[2] With incomes below 80 percent of the median.

[3] Existing and moderately rehabilitated units.

[4] No program.

[5] New construction and substantially rehabilitated units.

[6] Without rent supplement units.

[7] Estimate not available.

Source: Trends in Subsidized Housing: 1974-81: [by] Paul Burke. Division of Housing and Demographic Affairs, Office of Economic Affairs, Department of Housing and Urban Development. March 1984.

FAMILY TYPES ASSISTED

From 1974 to 1981 significant changes occurred in the characteristics of families with children aided by rental subsidy programs. Relatively more single-parent families were aided. Whites became a larger share of the assisted population. Families aided became relatively poorer. For all assisted units, the proportion of single-adult households among those with children increased by about one-seventh, from 54 percent in 1974 to 62 percent in 1981, this continues a trend traceable back to at least the early 1950s.[42] The racial composition of assisted households with children has changed noticeably. Black families have become a smaller proportion of such families, reversing a trend that prevailed from the early 1950s through the 1960s.[43] The proportion of black single-adult families with children among those receiving aid dropped from 63 percent in 1974 to 51 percent in 1981, with a corresponding decrease in families with two or more adults (from 49 to 43 percent). The overwhelming majority of this shift in racial composition was made up of an increase in the proportion of white families with children, although there was a slight increase in the number and proportion of families of Hispanic or other origin.

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[42] Pre-1974 characteristics from: U.S. Congress. House of Representatives. Committee on Banking and Currency. Papers Submitted to the Subcommittee on Housing Panels on Housing Production, Housing Demand, and Developing a Suitable Living Environment, Part 2. 92nd Congress, 1st session, June 1971, pp. 592-593. Characteristics data reflect those in low-rent public housing, the major housing effort of the two decades of the 1950s and 1960s.

Finally, assisted families with children have become poorer since 1974, by at least two measures: the proportions of those with incomes below 30 percent and 50 percent, respectively, of median family income. The share of those with income below 30 percent of the area median (considered very, very low income) rose by almost one-fifth, from 43 percent in 1974 to 53 percent in 1981. The proportion of those with incomes below 50 percent of median ("very-low-income" in housing legislation) grew from 75 percent to 83 percent between 1974 and 1981.[44] This continues a trend apparent from the early 1950s.[45]

DIFFERENCES BY PROGRAM

As shown in Table 6-33, the proportion of households with children in assisted units varies considerably by program. In other respects there are differences among the programs: representation of single-adult families and income levels of families assisted.

PUBLIC HOUSING

The proportion of public housing units occupied by families with children is similar to the proportion in all units aided by the five programs. It declined very slightly from 43 to 42 percent between 1974 and 1981. However, the proportion of single-adult families with children, which was higher than average in 1974, has dropped below average. In 1981, 54 percent of public housing units were occupied by single-parent families with children, compared with 56 percent in 1974. The proportion of single-parent families with children in all five programs was 62 percent in 1981, compared with 54 percent in 1974. The substantial growth in the proportion of single-adult families with children in Federal housing programs has taken place primarily in programs other than public housing. Perhaps because it is the oldest of the programs, public housing is less reflective of population shifts.

Income levels among public housing families with children differ from the average for all programs; in 1981, 58 percent of these families had incomes below 30 percent of the median, as opposed to 53 percent for all programs; 87 percent had incomes below 50 percent of the median, compared to 83 percent among all assisted households. Public housing families are poorer.

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[43] Ibid.

[44] The proportion of median income measure of poverty is used here due to data limitations (information using proverty thresholds is not available over time) and because median income measures are used for housing assistance eligibility determinations.

[45] See footnote number 42.

SECTION 8 (EXISTING HOUSING OR MODERATE REHABILITATION)

In what has become the second largest Federal housing aid program, "Section 8" subsidies for those in existing or moderately rehabilitated housing, families with children occupy more than half the units: their 1981 share was 53 percent, some one-fifth larger than that among all assisted units. Moreover, the proportion of single-adult families with children is much greater than among all programs (75 percent versus 62 percent in 1981) or any other single program. This portion of the Section 8 effort has accounted for the bulk of the shift to single-adult families with children. As with public housing, Section 8 (existing housing and moderate rehabilitation) beneficiaries with children tend to be poorer than the norm for all programs: 61 percent with incomes below 30 percent of the median, and 90 percent with incomes below 50 percent of the median.

SECTION 8 (NEW CONSTRUCTION OR SUBSTANTIAL REHABILITATION)

The third largest program, Section 8 subsidies for those in newly constructed or substantially rehabilitated housing, has the smallest proportion of families with children; 23 percent in 1981. Its beneficiaries also appear to be noticeably less poor than those with children in other assisted units. In 1981, 46 percent had incomes below 30 percent of the median. However, this program includes a large proportion of single-adult families among those with children that it serves, 72 percent in 1981.

SECTION 236 PAYMENTS

Section 236 payments are made to landlords to bring down interest costs in housing serving the low-income population. Of those Section 236 units that did not also receive a rent supplement (see next program) in 1981, 42 percent were occupied by families with children, compared with 54 percent in 1974. Thus, the proportion has declined significantly more in this program than in others. The share of its units occupied by single-adult households rose from 41 percent in 1974 to 55 percent in 1981, still below the five program average. Families who receive only Section 236 subsidies tend to be less poor than those in the other programs. In 1981, only 20 percent had income below 30 percent of the median and 59 percent had income below 50 percent of the median. This is probably because poorer Section 236 tenants would also receive a rent supplement and are discussed under that program rather than here.

RENT SUPPLEMENTS

Rent supplements are paid for lower-income renter households in addition to other subsidies for landlords (for example, Section 236 subsidies). The proportion of families with children receiving rent supplements has declined over the 1970s, from 54 percent in 1974 to 49 percent in 1981, but remains somewhat higher than the 42 percent rate among all program recipients. These families tend to be poorer than the norm. In 1981, 65 and 93 percent had income below 30 and 50 percent of the median, respectively. Also, almost two-thirds of them (64 percent) are single-adult families.

DIFFERENCES BY INCOME

The degree to which families with children are present in the assisted housing universe varies by income class. If poverty status is judged by a median income measure, they tend to make up less of a proportion of assisted housing units among "poorer" households than among higher income households, and to be less "poor" than other assisted households.

The definition of low income used in housing programs is keyed to median family income adjusted for family size. Using this measure, recent analysis indicates that, for assisted households with incomes below 30 percent of the median, families with children made up only about 38 percent of the assisted units in 1981, but somewhat larger proportions for households with incomes above 30 percent of the median (up to 42 percent among assisted households of all income levels). It also indicates that assisted households with children are less "poor" than adult-only households. Of assisted households with children, 58 percent had 1981 incomes below 30 percent of the area median, compared with 62 percent of adult-only households.

However, a different picture of the relative poverty of assisted families with children emerges when poverty status is judged by the Census Bureau poverty thresholds.[46] In 1981, and similarly in 1982, this measure indicated that, households with children made up 56 percent of the total number of poor households assisted, although they were only 49 percent of the total number of all households assisted. Moreover, they tended to be poorer than assisted households without children. Their 1982 poverty rate was 60 percent, compared to 45 percent for households without children.

SHARE OF POOR FAMILIES AIDED

The five existing Federal housing aid programs considered in this chapter provide assistance to about 1.2 million units having families with children. About 83 percent of these units, 1 million, contain families with incomes below 50 percent of the median income, families classified by HUD as very low income. This is up substantially from the 680,000 units with children assisted in 1974, 512,000 of which (75 percent) were families with incomes below 50 percent of the median income. The total number aided rose 74 percent from 1974 to 1981; the number of very poor families aided rose by 96 percent.

"Need" for housing assistance can be measured in various ways: households with incomes below the most commonly used housing aid income test, 50 percent of the area median income; households with incomes below Federal poverty thresholds; and households with incomes falling below either of these income standards who are in physically inadequate or crowded housing, or whose housing cost exceeds 30 to 40 percent of income. Tables 6-33 and 6-34 present 1981 data on the share of "very-low-income" households and officially "poor" households, respectively, that were aided by housing programs in 1981. The former table uses the HUD measure (50 percent of area median income), the latter the poverty threshold.[47]

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[46] From Bureau of the Census surveys of non-cash benefit receipt.

Although the two measures of poverty status in these tables are different, they yield very similar results. Federal housing assistance programs in 1981 served about one-sixth of total households (owners and renters) with children judged needy by either measure, income below 50 percent of the area median or income below the Federal poverty threshold. Moreover, they served almost one-fourth of "needy" renter households with children, whichever yardstick is used.

Table 6-33 shows that there were 6.5 million "very-low-income" households with children in 1981 (using the HUD measure), of which 4.1 million were renters. Table 6-34 shows that there were 5.4 million officially poor households with children, of which 3.4 million were renters. The five Federal programs covered in this report aided 1 million of the very-low-income households (15.5 percent of all such households, 24.4 percent of the renters). The same programs aided 0.8 million of the officially poor households (15.6 percent of all such households, 24.5 percent of the renters). The 1981 share of officially poor households aided (15.6 percent) compares with a share of 14.6 percent in 1977, when subsidies went to 600,000 poor households with children out of a total of 4.1 million such households.

The tables indicate that 31 percent of the very-low-income households with children (and 36 percent of those officially poor) were in physically inadequate or crowded housing in 1981. Similarly, 43 percent of the very-low-income households (and 42 percent of those officially poor) had housing costs above 30–40 percent of their income.

TABLE 6–33.—SHARE OF "VERY LOW INCOME" HOUSEHOLDS WITH CHILDREN AIDED BY MAJOR HOUSING PROGRAMS: 1981

[Income below 50 percent of area median][1]

	Total	Renters	Owners
Households with children, below 50 percent of median income	6,475,000	4,109,000	2,366,000
Those who also:			
Live in physically inadequate or crowded housing	1,976,000	1,460,000	516,000
Have a heavy cost burden	2,767,000	1,890,000	877,000
Total	4,743,000	3,350,000	1,393,000
Assisted units, households with children having incomes below 50 percent of median income	1,001,000		
Percentage share of the total with income below 50 percent of median income	15.5	24.4	

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[47] Unpublished data provided by the Department of Housing and Urban Development.

TABLE 6-33.—SHARE OF "VERY LOW INCOME" HOUSEHOLDS WITH CHILDREN AIDED BY MAJOR HOUSING PROGRAMS: 1981—Continued

[Income below 50 percent of area median] [1]

	Total	Renters	Owners
Percentage share of those who live in phsycially inadequate or crowded housing, or have a heavy cost burden	21.1	29.9	

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[1] Source: Unpublished data supplied by the Department of Housing and Urban Development.

TABLE 6-34.—SHARE OF POOR HOUSEHOLDS WITH CHILDREN AIDED BY MAJOR HOUSING PROGRAMS: 1981

[Income below the official poverty threshold] [1]

	Total	Renters	Owners
Households with children, below poverty thresholds	5,375,000	3,432,000	1,943,000
Those who also:			
Live in physically inadequate or crowded housing	1,916,000	1,396,000	520,000
Have a heavy cost burden	2,261,000	1,522,000	739,000
Total	4,177,000	2,918,000	1,259,000
Assisted households, with children, below poverty	840,000		
Percentage share of the total below poverty threshold	15.6	24.5	
Percentage share of those who live in physically inadequate or crowded housing or have a heavy cost burden	20.1	28.8	

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[1] Source: Unpublished data supplied by the Department of Housing and Urban Development.

9. Conclusion

Cash spending for poor children decreased in real terms from 1973 to 1983, both in the aggregate and per child. However, spending for major non-cash benefits, which are not treated as income by official poverty statistics, rose sharply, increasing aid available per poor child. (Table 6-35.)

Declines in cash outlays were 19 percent for social security and 15 percent for AFDC. The increase for Medicaid was 53 percent. Increases for food stamps and subsidized housing (measured from 1974 rather than 1973) were much higher, 147 percent and 400 percent, respectively. During the decade the number of children in market income poverty rose by 30 percent; after cash transfers, the number of poor was up by 34 percent.

As was noted in Chapter II, the non-cash benefits, when treated as income, did less to reduce poverty rates of children in 1983 than they had in 1979. (The Census Bureau has not calculated poverty rates that take into account non-cash benefits for years earlier than 1979.)

TABLE 6-35.—SPENDNG FOR CHILDREN AND THEIR FAMILIES, 1973 AND 1983

[Millions of 1983 dollars]

	Fiscal year 1973 (unless noted as 1974)	Fiscal year 1983	Percent change
Social Security	$13.0	$10.5	−19
AFDC	16.2	13.8	−15
Food stamps [1]	[2] 3.8	9.4	+147
Medicaid	5.9	9.0	+53
Subsidized housing [1]	[2] .8	4.0	+400
Total	39.7	46.7	+18

[1] Benefits for households with children.

[2] 1974.

The share of poor children served by AFDC and food stamps declined. The number of AFDC children per 100 pre-welfare poor children decreased from 73 to 50 during the decade. The share of poor children who received food stamps in a survey month declined from 76 percent in 1978 to 69 percent in 1982. However, the share of poor children covered by Medicaid was unchanged from 1979 to 1983, at about one-half, and the share of poor households with children that received subsidized housing increased from 14.6 percent in 1977 to 15.6 percent in 1981.

In recent years both the food stamp program and Medicaid have concentrated more of their benefits on very poor children, those with income below 50 percent of the poverty threshold.

CHAPTER VII. SUMMARY

This study analyzed income data on 2.5 million persons to answer basic questions about children in poverty: What children are poor? How poor? To what extent are they helped by social insurance payments? By cash welfare? How has the condition of poor children changed over the last quarter century?

To carry out the study, CRS used Census Bureau income data for the years 1968 through 1983. The data file that CRS amassed provides more information about the economic status of children, in more detail, than had been brought together before. And because consistent definitions were applied to the data, to compensate for changes in survey terms used over the years, the data series was more reliable.

Using the child as the unit of analysis, the study undertook many tasks: they included:

—Determining the poverty status of children before and after social insurance benefits, and before and after cash welfare benefits.

—Calculating the poverty income deficit of children year by year.

—Exploring changes in family composition and their impact on children's poverty.

The study used 1982-1983 Census Bureau income data to explore in detail the earnings of fathers and mothers in married-couple families and of mothers raising children alone, and to relate their earnings to many factors, including age, completion of high school, size of family, and race.

It examined the extent to which the poverty of families with children has been affected by a general rise in the proportion of persons with low earnings over the years.

The study has confirmed many previous understandings about child poverty, yielded some new insights, and identified several areas that need further examination.

CONFIRMATIONS

The study confirmed that child poverty is a persistent problem, especially for blacks and Hispanics. Although the gap in incidence of poverty has narrowed between blacks and whites over the last quarter century, a black child still is almost three times as likely to be poor as a white one. Whether a child is likely to be poor depends not only on race, but also on the marital status of his mother, the presence of his father, size of family, age of parent, education of parent, among other factors.

It confirmed that recessions tend to increase poverty rates of children in male-present families more than those of children who live with their mother only. Hence, poverty rates of children in intact families are more subject to fluctuations. These shifts greatly influence overall child poverty rates, inasmuch as 80 percent of children live in such families.

It confirmed that major non-cash benefits did less to alleviate poverty in 1983 than in 1979. Thus, ignoring non-cash benefits understates the deterioration of the economic status of children in recent years.

NEW INSIGHTS

The study brought several new insights. They include:

Never-married mothers present the most severe child poverty problem (three out of four children of such mothers are poor), and their ranks are growing. In 1980 almost one-fifth of births were to unwed mothers, 48 percent of black births, and 11 percent of white births. If the incidence of never-married mothers had not increased from 1969 to 1979, it is estimated that the overall poverty rate (and that for all persons in female-headed families with children) might have been 5 percent lower in 1979.

More than one-sixth of the poor children in 1983 were in families with at least one full-time, year-round job. These poor children numbered more than 2.5 million. Their existence belies the widespread view that a full-time job throughout the year is near-insurance against poverty. Among children with only one full-time working parent, the poverty rate was about 10–12 percent, depending on family type. Further, one-fourth of the children in married-couple families would have been poor if their only income were their fathers' earnings. When poor families do earn their way out of poverty, secondary workers often play a crucial role, accounting for one-third to one-half of the extra income that lifts children across the poverty threshold.

Even if he has two working parents, a black child is at an economic disadvantage. Such a child is more likely to be poor than a white child with only one working parent (his father).

Market income poverty rates of children climbed 40 percent from 1973 to 1983. Instead of rising to fill the earnings gap, Government transfer payments to children poor without such aid declined by six percent in real terms.

A smaller share of the population of poor children is receiving food stamps and AFDC, but the share aided by subsidized housing has increased in recent years, and the share covered by Medicaid has held steady.

Social security payments for children and their parents are substantially larger than Federal payments for AFDC benefits.

The capacity of economic growth to reduce the incidence of child poverty appears to have been diminished by growing inequality in the distribution of family income relative to poverty thresholds.

QUESTIONS REMAINING

The study identified several areas that are not fully understood. Several of the major questions that need exploration follow:

Why has the distribution of earnings relative to poverty thresholds become increasingly unequal for families with children? Is a polarization occurring between high and low earners (within each racial and sex group)? Why has there been a general rise in the proportion of persons with low earnings?

Does poverty among young adults, especially among high school dropouts, result from a change in employers' willingness to hire those without credentials, or from a change in skills required for today's jobs, or from a decline in motivation and skills of the young people?

What is the status of the one-half million poor children not in related families? How many are themselves heads of families?

Why are poverty rates of children in two-parent black families double (and those of Hispanic families more than double) those of their white counterparts?

To what extent is the rise in black female-headed families due to low job demand for, or changes in the labor supply of, young black male adults?

Why do black single mothers work fewer hours than white single mothers, and black married mothers work more hours than white married mothers?

What is the relative importance of the various factors that influence hours worked and wages earned by parents?

What is the impact of racial discrimination upon earnings of families with children?

This report has sought to improve understanding of the nature, incidence, and intensity of poverty among children and of Government policies that affect their economic well-being.

PART II

Policy Options To Reduce Poverty Among Children

SUMMARY

In 1983, nearly 14 million American children, or more than one child in five, lived in poverty as measured by the official Bureau of the Census definition. These children constituted nearly 40 percent of all poor people, and they and the adults with whom they lived represented more than two-thirds of the poverty population. Although these figures were recorded near the end of a deep recession and some improvement is likely because of the subsequent economic recovery, the poverty rate among children is not apt to drop very sharply, and large numbers of children will almost certainly be poor for some years to come.

THE PATTERN OF POVERTY AMONG CHILDREN

Any measure of poverty is necessarily arbitrary, and the number of people—including children—who are deemed to be poor depends on what yardstick is used. Nonetheless, such measures are useful, both as guides to how economic hardship is distributed within the population and as means of judging progress toward alleviating it. The official poverty measure was established two decades ago and judged each member of a family to be poor if the family had pretax cash income less than three times the cost of a nutritionally adequate but minimum diet. The measure remains essentially the same today, with adjustments made for changes in the cost of living. In 1983—the most recent year for which comprehensive data are available on family incomes—the poverty threshold for a family of three was roughly $8,000. For other families, the thresholds varied from about $5,000 for a single person to just over $20,000 for families of nine or more.

By the Census measure, 22 percent of all children were poor in 1983, but the rate varied greatly according to household composition, ethnicity and race, and where the children lived.[1] Of all children living in single-parent households headed by women, 55 percent were poor—more than four times the rate for children in other households. In the same year, 47 percent of all black children and 38 percent of all Hispanic children were poor compared with 15 percent of all nonminority children. Among minority children in households headed by a single woman, about 7 out of every 10 were poor. Geographically, poverty was most common among children who lived either in central portions of metropolitan areas or in nonmetropolitan areas.

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[1] Alternative measures of poverty can be constructed by specifying different poverty thresholds, and by changing the definition of income available to families. The latter could be broadened to include in-kind benefits (such as food stamps and housing subsidies), and to exclude taxes that reduce the resources available to pay for goods and services. Under 11 combinations of such changes considered in this paper, the overall childhood poverty rate varied from 2 percentage points less than the official rate to about 6 percentage points more.

THE CURRENT FEDERAL ROLE

By its very nature, government affects the well-being of all citizens and influences how many of them are poor. Monetary and fiscal policies affect economic growth and stability and, thus, among other things, how readily workers can find jobs and the purchasing power of the money they earn. The taxes collected by government help determine how much income is available to meet consumption needs. Moreover, an array of laws and regulations influences the operation of labor markets and other aspects of the economy.

In addition, governments at all levels provide a wide range of assistance intended to help people who remain in or near poverty. A number of cash and in-kind assistance programs—plus a tax credit for some families with low earnings—help low-income families with children meet their basic needs. Coverage is uneven, however, and average benefits vary geographically, sometimes greatly. Food Stamps—a federally financed program that helps families afford a minimally adequate diet—is the only assistance that is available to essentially all families in or near poverty. Aid to Families with Dependent Children (AFDC), which provides cash assistance, and Medicaid, which finances health care services, are shared federal-state responsibilities. Aid under these programs is available to most children living in single-parent families with incomes less than state-established income-eligibility limits, which are generally well below the poverty thresholds. States also determine whether assistance is provided to children living in two-parent families. This core of assistance is supplemented by subsidized housing programs, which reduce shelter costs for some low-income families with children; the Earned Income Tax Credit (EITC), which reduces the tax liability, or provides cash payments, for low-income families with children and low earnings; and school-based meal programs that subsidize breakfasts and lunches for low-income children whose schools choose to participate.

Complementing this direct assistance system are subsidies for employment and training intended to help the parents of poor children work their way out of poverty, as well as funding for a broad range of social services and education programs intended to alleviate some of the adverse consequences of poverty and reduce the incidence of poverty in the future. Most of this aid is available through annually appropriated programs that serve only a small share of those who are eligible.

OPTIONS FOR HELPING LOW-INCOME CHILDREN

Because economic growth provides increased employment opportunities and higher incomes, the performance of the economy has a major impact on the extent of poverty. While there is a clear government role in promoting economic growth, the scope of this paper is limited to more direct measures for helping poor children. The fundamental role of a strong economy must be kept in mind, however, since high employment is a necessary condition for the success of several of the options considered in this paper.

Options for altering current federal efforts that help to reduce poverty among children, or its effects on them, are as varied as views regarding the dynamics of poverty and the appropriate role for government. Some alternatives would comprehensively restructure the current welfare system. These range from proposals to have the federal government assume full responsibility for providing a minimum income floor for all families with children, to proposals that would greatly scale back the current public assistance system in order to increase incentives for low-income people to take responsibility for improving their own well-being. Also, several proposals to substantially restructure the federal income tax system include provisions that would reduce or eliminate the income taxes paid by poor families.

While debate about comprehensive alternatives continues, discussions in the Congress each year tend to be dominated by specific proposals to modify existing policies. These more incremental options also vary greatly, however, reflecting different policy objectives, and some would involve fairly substantial modifications to current policies. This paper examines more than 40 such options.

In considering any options, two fundamental issues must be addressed. First, how effective would a particular approach be? Wherever possible, this paper provides evidence about the impacts of existing federal efforts and about the likely effects of specific changes in them or new approaches.

Even if there is general agreement that a particular approach is effective, however, a second issue arises. Large projected federal budget deficits mean that difficult trade-offs must be made. Most proposals to modify current policies would require additional outlays or would reduce revenues. Consequently, other demands on the government and limited tax revenues conflict with the desire to aid poor children. As the Congress works to reduce deficits, choices among these competing factors are particularly difficult.

INCREASE RESOURCES THROUGH DIRECT ASSISTANCE

One set of options would increase resources provided by the government—either by increasing benefits to families that are already eligible for assistance, or by expanding eligibility to reduce disparities that now exist in the treatment of similar types of families. Both approaches would improve the living standards of some low-income families with children, but they could also reduce incentives for low-income families to make their own efforts to escape poverty.

Increase benefit levels

One option for increasing the incomes of low-income families with children would be to require that all states set minimum AFDC benefits at a level sufficient to assure that any assisted family would have cash income plus food stamps equal to at least 65 percent of the federal poverty guidelines.[2] If such a minimum were enacted to take effect in 1986, a family of three with no other income would receive an AFDC benefit of $396 per month, plus $132 in food stamps.

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[2] That level would be somewhat lower, for example, than the benefit level available through the Supplemental Security Income program, which serves low-income elderly, blind, and disabled people.

This option would raise AFDC benefits for some or all current recipients in 41 states. About 2.2 million families currently participating (that is, three-fifths of the total) would receive net increases averaging about $75 per month in the combined value of their AFDC and food stamp benefits. In addition, an estimated 190,000 additional families would join the AFDC program. Such a change would have a net cost of about $2.7 billion in 1986—about evenly divided between the federal government and the states. Raising benefits could increase work disincentives, however, especially for people with low potential earnings and those in areas where wages are generally low.

Another option would be to increase the maximum food stamp allotment for families with children. Raising their maximum allotment to 110 percent of the level provided under current law would increase average monthly benefits for 4.2 million households from $173 to $198, at an annual cost to the federal government of about $1.2 billion. This increase would enable affected families to purchase additional food, but some critics contend that current allotments are sufficient to fulfill nutritional needs. Others argue that recipients would be better off receiving cash, which could be used to purchase what they felt best met their needs.

Reduce disparities in coverage

Other options would reduce disparities in coverage under current programs by extending eligibility to families that are not currently served in some states. One alternative would be to mandate coverage in the AFDC program for poor two-parent families regardless of their employment status. Mandating coverage for all low-income, two-parent families—a group that is entirely excluded in about half the states and partially excluded in the others—would add an estimated 450,000 families to the AFDC rolls at a total federal and state cost in 1986 of about $1.5 billion. Such a change could reduce incentives for some low-income recipients to work, but it would also eliminate one incentive that families have to break up.

Another alternative would be to require states to provide Medicaid coverage to all low-income children and pregnant women, regardless of the type of family in which they live. Mandating Medicaid coverage for all children and pregnant women in families with incomes below 65 percent of the federal poverty guidelines, for example, would serve 700,000 additional children and 100,000 additional pregnant women. Although this option would reduce disparities in the access of low-income children and pregnant women to health care without expanding eligibility for cash assistance, it would also raise annual costs by roughly $0.7 billion, divided about evenly between the federal government and the states.

PROMOTE ECONOMIC INDEPENDENCE

Another strategy for aiding poor children would be to help their parents or guardians achieve economic independence. This approach could involve raising work incentives or work requirements in current transfer programs; increasing employers' willingness to hire parents of poor children, either by raising parents' skills or by lowering the cost of employing them; or expanding access to child care.

Increase work incentives or work requirements in current transfer programs

Numerous changes could be made in the rules governing public assistance programs to encourage parents to work more. The federal government could, for example, raise permissible deductions from income under the AFDC and Food Stamp programs; this change would lower the amount by which benefits are reduced for people who work. Specific changes could include allowing larger deductions to cover work-related expenses, raising limits on deductible child care costs, or disregarding a larger fraction of earnings in calculating benefits. A combination of these and other adjustments in the AFDC program, for example, would increase monthly benefits by an average of $69 for more than 150,000 families currently receiving AFDC, and would give payments averaging $116 per month to 190,000 new participants. The annual cost would be about $0.5 billion. While this option would reward families that try to help themselves, its effect on work effort is unclear.

Another option would be to require that all adults in families receiving AFDC benefits perform some work as a condition of receiving benefits, unless they are exempted for reasons such as disability or the responsibility of caring for a young child. Currently, many states have some type of workfare program for AFDC recipients, but in most states it is not universal. Mandatory workfare would increase incentives for welfare recipients to seek jobs. It might also provide welfare recipients with opportunities to increase their skills and credentials so that they could become self-sufficient. Many claims about the value of workfare are in dispute, however. Reliable information on its effects should be available shortly when evaluations of current demonstration programs are completed.

Increase the ability of low-income parents to compete for jobs

The employment prospects of low-income parents could also be improved by increasing their skills or by increasing the demand for the skills they have. One option for raising skill levels would be to increase training funds under the Job Training Partnership Act (JTPA). For example, an additional $100 million in JTPA funds earmarked for AFDC recipients could provide training to about 50,000 more people—an increase of more than 40 percent in the number of AFDC recipients who now receive JTPA training. Based on evaluations of an earlier program, there is reason to anticipate that JTPA training could increase the future earnings of welfare recipients, especially for those with little previous work experience. Opponents argue, however, that part of the gain in earnings was because of differences in motivation between participants and nonparticipants, and that funding increases are not warranted.

Another approach would be to subsidize the wages of particular groups of workers. One option would be to reauthorize the Targeted Jobs Tax Credit (TJTC), which provides private employers who hire members of certain economically disadvantaged groups—including AFDC recipients—with tax credits of up to $3,000 for the first year of employment and $1,500 for the second year. Extending the credit, which is due to expire at the end of this year, and limiting eligibility to AFDC recipients would encourage private employers to hire members of this group. On the other hand, employers might receive the subsidy for hiring workers they would have hired anyway.

Alternatively, more jobs for low-wage workers might be available if certain regulations and laws affecting the operation of labor markets were relaxed or eliminated. For example, the Congress could reduce the federal minimum wage, which is currently set at $3.35 per hour. While this action would probably help additional members of poor families with children to find jobs, it would probably decrease earnings for some people who already hold minimum-wage jobs. The net impact this option would have on poor families with children is not known.

Increase access to child care

For some low-income parents, limited access to affordable child care may be the greatest constraint on their looking for jobs. One approach for increasing access is to provide incentive grants to states or nonprofit organizations to expand low-cost child care. Alternatively, child care for low-income families could be subsidized directly, for example, through a set-aside in the Social Services Block Grant. In addition, the dependent care tax credit could be modified to make it more valuable to low-income families. Considerable disagreement exists, however, over the adequacy of child care supply, the degree to which a lack of child care limits labor force participation, and the role the federal government should play in this area.

ALLEVIATE ADVERSE EFFECTS AND HELP PREVENT FUTURE POVERTY

A final set of options focuses on ways to alleviate some of the adverse effects of poverty on children, or to help prevent poverty in the future.

One alternative would be to increase funding for the Supplemental Food Program for Women, Infants, and Children (WIC), which provides food assistance and nutritional screening to low-income pregnant and postpartum women and their infants, as well as to low-income children up to age 5. Evaluations of the WIC program have found it to be effective in reducing the incidence of low birthweight among infants—a condition that is linked to increased probability of infant mortality and a wide variety of birth defects. Program coverage is incomplete, however. Current appropriations are estimated to be sufficient to serve only about one-third of all income-eligible women, one-half of all income-eligible infants, and one-fifth of all income-eligible children. (While data on the number who also meet the "nutritional-risk" eligibility criterion are not available, many people argue that a high proportion of this group either have nutritional deficiencies or have inadequate diets that could lead to such deficiencies.) Increasing funding for WIC by $500 million from the 1985 level of $1.5 billion would provide coverage for about 1 million additional people, expanding coverage to about 40 percent of those who are eligible based on their incomes.

Making WIC an entitlement would increase costs by up to $3.8 billion, depending on how many people participated. Opponents contend, however, that those who are most in need are already served.

Additional assistance could also be provided by expanding funding for the Head Start program, which pays for a wide range of services for low-income children and their families through a preschool day care program. In addition to safe and developmentally oriented day care, the program provides children with medical and dental services, as well as balanced meals. While the long-term educational effects of the national Head Start program remain unclear, some preschool intervention programs have been found to lessen substantially the odds of failure in school, and even to improve employment experiences after high school. Opponents question whether expanding this program is the best use of scarce federal resources, however, given the average annual cost of $2,400 per child served.

Because teenage pregnancy contributes substantially to child poverty and long-term dependence on public assistance, another approach would be to attempt to reduce the teenage pregnancy rate and to help those teenagers who become pregnant. One option would be to increase funding for family life education programs or for family planning information and services. This approach could increase teenagers' knowledge of the consequences of sexual activity, as well as their access to contraception. There is great controversy, however, about whether it is appropriate for the federal government to fund such assistance or whether parents should be solely responsible. Pregnant teenagers could also be given information about adoption. In addition, comprehensive services could be provided to those teenage mothers who choose to raise their children themselves, by assisting them to remain in school and thereby improving their chances of achieving economic independence.

CHAPTER I. INTRODUCTION

In 1983, nearly 14 million children, or more than one out of every five, lived below the official poverty line.[1] This was the highest poverty rate among children since the early 1960s. As of 1983, children comprised almost 40 percent of the poor, and they and the adults living with them—24 million people in all—made up more than two-thirds of the poverty population.

This paper examines patterns of childhood poverty and presents options intended either to reduce poverty among children or to alleviate its adverse effects. The remainder of this chapter discusses how poverty is measured, recent trends and current patterns of childhood poverty as officially measured, and the effects of using alternative definitions of poverty. Subsequent chapters examine issues that arise in dealing with childhood poverty, federal policies that currently address the poverty of children and their families, and options for altering current federal efforts.[2]

THE INCIDENCE OF POVERTY AMONG CHILDREN

Which children, and how many, are poor depends on how poverty is measured. By the official Bureau of the Census yardstick, 22 percent of all children were poor in 1983, the highest poverty rate in two decades. Critics argue that official statistics misstate poverty, however, contending that poverty thresholds are set at the wrong levels, and that families' incomes are not measured correctly. Nonetheless, across a wide range of alternative measures, poverty rates for children differ by only small amounts. Under none of the measures examined here does the magnitude of the problem shrink markedly.

ISSUES IN MEASURING POVERTY

Measuring poverty entails establishing thresholds that specify the amount of resources assumed to be required to achieve a minimally adequate living standard, and comparing the resources available to each family with the appropriate threshold for that type of family. This raises two measurement issues:

—At what level should the thresholds be set?

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[1] Children are defined as all individuals under the age of 18. Congressional Budget Office tabulations of Census (Current Population Survey) data include in counts of children a small number of individuals under the age of 18 who are not classified as children in certain Census tabulations. Accordingly, some published Census numbers may differ slightly from corresponding numbers appearing here. Moreover, in this paper, the words "families" and "households" generally mean families and households with children.

[2] Considerably more detail on historical trends in poverty of children and on government programs is presented in a companion paper prepared by the Congressional Research Service and published elsewhere in this document. That paper also discusses factors associated with childhood poverty.

—What resources should be counted in assessing whether a family falls below the appropriate threshold, and how should those resources be valued?

Any poverty threshold is necessarily arbitrary, reflecting the views of those who establish it regarding what constitutes a minimally adequate standard of living. One broad choice is whether to set absolute standards of minimum adequacy, or to fix thresholds relative to the economic position of the average citizen. With relative thresholds, the poverty line would float up or down with the standard of living in the broader population, while an absolute standard would fix the poverty line in real terms. Even absolute standards are defined in relation to the norms of the country involved, however. What is considered a minimally adequate standard of living in the United States, for example, would be viewed as very generous in many developing countries.

Deciding what resources should be considered in judging a family's well-being—and how those resources should be valued—involves choices about whether cash income should be measured before or after taxes are taken out, whether in-kind benefits such as health insurance or housing subsidies should be included, and whether assets should be taken into account. Most people contend that all resources that are available to meet immediate consumption needs, whether the resources are in cash or in kind, should be counted in judging whether a family is poor. Much less agreement exists, however, about what should be done with taxes, how in-kind benefits should be valued, and whether assets that do not provide current income—such as equity in homes—should be included in measuring a family's economic status.

THE OFFICIAL MEASURE AND TRENDS IN CHILDHOOD POVERTY

The official poverty measure used in the United States was established two decades ago. It judges a family—and each member of the family—to be poor if the family has a cash income (counted before taxes are subtracted) that is less than thresholds originally set at three times the cost of a nutritionally adequate but minimum diet.[3] Although the specific poverty thresholds—which vary with family size and composition—are adjusted annually to take account of increases in the cost of living, neither the manner for setting thresholds nor the kinds of resources that are compared with those thresholds has been changed since the measure was first established.[4] In 1983, the official poverty threshold for a family of four was roughly $10,000. For other families, the thresholds varied from about $5,000 for a single person to just over $20,000 for families of nine or more people.

During the past 25 years, the official poverty rate among children first dropped sharply and then returned nearly to its previous levels (see Chart 1).[5] Several factors appear to be responsible for this pattern, including economic conditions, changes in household composition, and changes in federal policies. Although the poverty rate among children is likely to drop somewhat when data become available for 1984 and 1985, there is little indication that it will fall to the level of the late 1970s.

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[3] The factor of three was based on a 1955 survey of consumer expenditures that indicated that families of three or more spent an average of about one-third of their after-tax incomes on food.

[4] These two issues—setting thresholds and measuring resources—are the major areas of criticism of the official poverty definition. Further discussion of them and alternative measures are offered below.

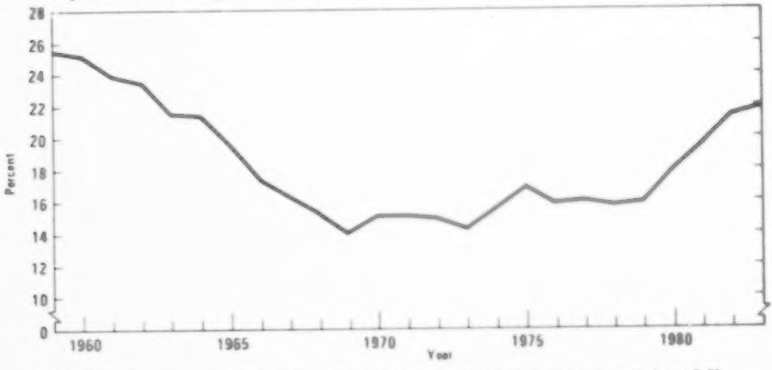
[5] Much of this discussion of trends in poverty among children is drawn from Congressional Budget Office, "Poverty Among Children" (December 3, 1984). See this paper for a more in-depth analysis of the trends in childhood poverty.

Between 1959 and 1969 the childhood poverty rate fell consistently, from approximately 26 percent to 14 percent. Furthermore, the number of poor children dropped by about 6.5 million, despite a 9 percent growth in the child population. Factors that may have contributed to this drop in poverty include: a generally strong economy, with declining unemployment and relatively low inflation; increased real (that is, inflation-adjusted) government spending on poor children, particularly in the Aid to Families with Dependent Children (AFDC) program; and a relatively slow rate of increase in the proportion of children living in households headed by single women—a population that is especially likely to be poor.

The decline in the childhood poverty rate stopped in 1969. Over the course of the following decade the poverty rate among children rose slightly, though erratically, to roughly 16 percent in 1979. Even though the poverty rate fluctuated with economic cycles, its overall increase in this period appears to be primarily related to the increased proportion of children living in households headed by single women.

Chart 1.

Poverty Rate Among Children, Ages 0-17



SOURCE: Congressional Budget Office; Bureau of the Census, *Current Population Reports*, Series P-60.

NOTE: Rates are slightly underestimated because of the exclusion of older unrelated children and, since 1979, because of the exclusion of unrelated subfamilies. Rates before 1966 have been adjusted downward for consistency with later years. See Congressional Budget Office, *Poverty Among Children* (unpublished, December 3, 1984), for further details.

Between 1979 and 1983—the most recent years for which data are available—the child poverty rate rose sharply, from 16 percent to 22 percent, and the number of poor children rose by 3.7 million to 13.8 million (the highest number of poor children since the mid-1960's). This increase in poverty affected children in all household types, of all ages, and of all racial and ethnic groups. The growth in poverty rates appears to have been the result of the rapid inflation of 1979–1980, the severe back-to-back recessions of 1980 and 1981–1982, and the reductions in government spending on income-maintenance programs. The relatively small shifts in household composition that occurred during this brief period did not contribute significantly to the increase in the number of poor children.[6]

Although it is difficult to forecast poverty rates, it appears that the official child poverty rate is likely to decline as data covering the current economic expansion become available. While the extent of any further decline is unknown, several factors suggest that it is unlikely that the poverty rate will return to its pre-recession (1979) level. First, if the unemployment rate follows the pattern assumed in the most recent Congressional Budget Office (CBO) economic assumptions, it will remain above its 1979 level and thus impede a drop in childhood poverty. Second, the growing proportion of children who live in households headed by single women is continuing to contribute to a slight upward drift in the poverty rate that is largely independent of cyclical changes in the economy. Finally, future federal budgetary constraints make large increases in income-security benefits (which would reduce poverty) unlikely over the next several years. On the other hand, if the recovery is sufficiently strong and sustained, it could offset these factors. Nonetheless, poverty is almost certain to continue to be common among children and the adults who take care of them.

CHARACTERISTICS OF POOR CHILDREN

Although poverty is found among all groups of children, the poverty rate varies somewhat with the age of the child, and varies greatly with household composition, ethnicity and race, and whether the children are living in inner cities, suburbs, or rural areas.[7] In 1983, one out of four preschool children was poor—slightly more than the one-fifth of all school-age children who are living in poverty.

Poverty is much more common among children in households headed by single women than among two-parent households.[8] In 1983, 55 percent of the children living in households headed by single women were poor—more than four times the rate for children in two-parent households. Children from households headed by single women constitute almost 20 percent of the entire population of children, but they make up almost half of all poor children.

Minority children are much more likely to be poor than are nonminority children, although substantial numbers of the latter group are also poor. In 1983, 47 percent of all black children and 38 percent of all Hispanic children were poor, compared with 15 percent of all nonminority children.[9] Minority children comprise one-fourth of the entire child population, but they make up almost half of all poor children. Poverty rates are highest among minority children in households headed by single women. In 1983, about 7 out of every 10 minority children in households headed by single women were poor.

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[6] Over the 1967–83 period, the portion of the poverty population comprising poor children plus adults in households with poor children grew from 65 percent to 70 percent. The increase in the poverty rate of these groups did not result in a correspondingly large increase in their share of the poverty population because of the offseting decline in their share of the total population.

[7] Data in this section are from Department of Commerce, Bureau of the Census, "Characteristics of the Population Below the Poverty Level: 1983," Current Population Reports, Consumer Income Series P-60, No. 147 (February 1985), pp. 31–38 and 40–42.

[8] In this discussion, families with two parents and families where the father is the single parent are combined into the "two-parent" category, because data about households headed by single men are available for only a small sample. Although the poverty rate of these households is higher than that of two-parent households, it is lower than that of households headed by single women.

Finally, poverty is more common among children who live either in central portions of metropolitan areas or in nonmetropolitan areas. In 1983, 31 percent of all children living in central cities of metropolitan areas and 24 percent of children living in nonmetropolitan areas were poor, compared with 13 percent of children living in noncentral (primarily suburban) portions of metropolitan areas. More than three-fourths of all poor children live either in central cities or in nonmetropolitan areas (39 percent and 37 percent, respectively); the remaining poor children live in noncentral portions of metropolitan areas.

ALTERNATIVE MEASURES OF POVERTY

An unlimited number of alternative measures could be used to judge the incidence and distribution of poverty. Proposed alternatives—all of which imply some criticism of the current poverty measure—reflect differing judgments regarding what constitutes the minimum acceptable standard of living, and how resources should be counted in determining whether a family can attain that standard. The remainder of this section briefly describes criticisms of the current poverty measure and examines the variation in the poverty rate of children across several alternatives. As noted earlier, the number of poor children is large, regardless of what measure is used. (Appendix J elaborates on the discussion presented here.)

Alternative poverty thresholds

The current poverty thresholds have been criticized on several grounds. Some people contend that the way the thresholds have been adjusted for inflation has overstated the actual increase in the cost of living and, thus, has resulted in higher poverty lines than would otherwise have been set. Others take issue with basing the standard of minimum adequacy on a relationship between income and food expenditures that in turn is based on a survey that is now 30 years old. They argue that whatever the justification may have been for such a measure when it was first agreed to, little ground exists for maintaining that same multiple today. Still others argue that the appropriate measure of poverty is a relative one that would designate as poor all families with incomes less than some fraction of the national median.

Continued use of the present threshold—with appropriate inflation adjustments—would maintain consistency in the way in which poverty is measured, so that data would be comparable over time. On the other hand, if the poverty thresholds are meant to represent societal standards of need, it might be appropriate to redefine them periodically. Adopting the alternative approach of establishing the poverty thresholds at some fraction of median family incomes would provide information on the shape of the income distribution and how that distribution is changing over time.

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[9] Census publications define as "Spanish Origin" all who classify themselves as such, regardless of race. Thus, the Census racial and ethnic categories overlap; Spanish Origin individuals are tabulated both as such and as either white or black. In this discussion, all persons in the Spanish Origin category are classified as Hispanic and are not counted as either black or "nonminority." The "nonminority" category is constructed by subtracting all Hispanics from the count of whites and thus is nearly equivalent to "non-Hispanic white," since almost all Hispanics are classified as white.

Alternative income measures

Criticisms of how income is measured in assessing poverty focus on the exclusion from income of non-cash benefits and the fact that the taxes paid by low-income families are not subtracted from income in judging whether a family has adequate resources to meet minimum needs. While in-kind income and taxes were relatively unimportant for low-income families when the poverty measure was first established, this is no longer true; about two-thirds of all means-tested benefits are now provided in kind, and roughly one-third of poor families pay income and payroll taxes averaging 6 percent of their income. Others criticize the current measure for failing to take account of assets that may not be producing income now, but that could be "spent down" to meet current consumption needs.

Changing the way income is measured might or might not call for modifying the thresholds. For example, measuring income after taxes would be consistent with the current methodology for setting the thresholds (which is based on after-tax concepts), so many argue that no change in the thresholds would be needed. In contrast, recalculating the thresholds to take account of in-kind income received by the general population would be required to maintain consistency with an income measure that included in-kind benefits.[10] Some argue, however, that only the measure of income should be changed, because the thresholds represent a necessarily arbitrary standard against which to judge families' well-being.

Poverty under alternative measures

How many people are poor, and which people are poor, would vary both with the threshold used and the way in which income is measured. Lowering the current poverty thresholds would reduce the number of people deemed to be poor, while raising the thresholds would increase the count. Including non-cash benefits in income would lower the estimate of the size of the poverty population; subtracting taxes paid would have the opposite effect.

Under 11 alternatives to the current poverty measure—altering both the poverty thresholds and the way in which income is measured—the proportion of all children who would have been judged to be poor in 1982 (the latest year for which complete data are available) would range from 19.4 percent to 27.7 percent, compared with 21.9 percent under the current measure (see Table 1-1).[11] The

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[10] Examples of such in-kind income include contributions by employers for health and life insurance and for private pensions.

[11] The official thresholds and three alternatives are used. The "reindexed" threshold uses an alternative price index based on the consumption patterns of poor families to update the origi-

Continued

effect of changing the income measure would depend on the choice of thresholds; with the official thresholds, for example, including in-kind benefits and excluding personal income and payroll taxes would cause measured poverty to decline—to 20.7 percent or 19.8 percent, depending on how in-kind income is valued—while higher thresholds would yield larger, rather than smaller, poverty rates under the expanded income definition.

TABLE 1-1.—POVERTY RATES OF CHILDREN UNDER ALTERNATIVE INCOME DEFINITIONS AND ALTERNATIVE POVERTY THRESHOLDS, 1982

Poverty threshold [1]	Income measure [2]		
	Cash only	Cash plus in-kind benefits at cash-equivalent value, minus taxes	Cash plus in-kind benefits at budget-share value, minus taxes
Official	[3] 21.9	20.7	19.8
Reindexed	21.6	20.3	19.4
New Multiplier	24.9	25.6	25.2
Relative	26.4	27.7	27.3

[1] "Reindexed" thresholds are about 1 percent below official thresholds, "New Multiplier" thresholds are about 13 percent higher, and "Relative" thresholds are about 19 percent higher. See footnote 11 above and Appendix J for further discussion.

[2] See footnote 11 above and Appendix J for discussion of alternative income measures and ways of valuing in-kind income.

[3] This value represents the current Bureau of the Census poverty measure.

Source: Congressional Budget Office tabulations of March 1983 Current Population Survey including Bureau of the Census imputations of the value of the in-kind income and of taxes.

Using the various thresholds considered here, alternative definitions of income would also present different pictures of the distribution of people around the poverty lines. For example, using the current thresholds and either of two procedures for valuing in-kind benefits, the proportion of all children living in families with incomes more than 25 percent below the poverty lines would decline from about 16 percent to between 10 percent and 11 percent (see Table 1-2). This result would occur because many of the lowest-income families receive one or more in-kind benefits from the federal government, so their expanded income is noticeably higher than their cash income. On the other hand, under the same measures the proportion of children in families with incomes between 100 percent and 125 percent of the poverty lines would rise from 6

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nal thresholds for inflation since 1965. The "new multiplier" threshold recalculates the income-to-food-expenditures ratio, based on more recent data and including in-kind income and consumption. Finally, the "relative" threshold is set at 50 percent of median family income. Of the three alternatives, the first is about 1 percent lower, the second 13 percent higher, and the last 19 percent higher than the official threshold in 1982.

Two other income measures are used—in addition to cash only—to take account of the value of in-kind benefits people receive and the federal income and payroll taxes they pay. The recipient/cash equivalent value measure tries to determine how much recipients value in-kind income, while the budget-share value is equal to the smaller of the market value of the in-kind income and the normal expenditure on the particular good by families at the poverty level. Both alternatives subtract federal income and payroll taxes paid.

See Appendix J for further discussion of the alternative thresholds and methods for valuing in-kind income.

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percent to between 9 percent and 10 percent—reflecting the effect of taxes paid by the near-poor.

TABLE 1–2.—DISTRIBUTION OF CHILDREN AROUND THE OFFICIAL POVERTY THRESHOLD BY INCOME MEASURES, 1982

[In percent of all children]

Family income as percentage of poverty threshold	Income measure [1]		
	Cash income only	Cash plus in-kind benefits at cash-equivalent value, minus taxes	Cash plus in-kind benefits at budget-share value, minus taxes
Less than 75 percent	16.1	10.9	10.1
Between 75 percent and 100 percent	5.8	9.8	9.8
Between 100 percent and 125 percent	6.0	9.3	9.8
Total (less than 125 percent)	27.9	29.9	29.6

[1] See footnote 11 above and Appendix J for discussion of alternative income measures and ways of valuing in-kind income.

Source: Congressional Budget Office.

CHAPTER II. ISSUES IN ADDRESSING POVERTY AMONG CHILDREN

Government by its very nature affects the well-being of all citizens and influences how many of them are poor. Through monetary and fiscal policies and regulations, government affects the condition of the economy and thus, among other things, how readily workers can find jobs and how stable the value of the money they earn is. Also, the taxes collected by government determine how much income is available to people to meet consumption needs. In addition, governments at all levels administer a wide variety of programs intended to aid people—both individuals and families with children—who remain in or near poverty even during periods of economic expansion and low inflation.

This chapter briefly describes the issues that arise in deciding what the scope should be of direct government efforts to aid low-income families with children, and in designing specific policies. It then examines the current federal role. The chapter concludes with an overview of options for altering current policies. The options themselves are discussed in Chapters III through VI.

The Objectives of Government Policy and Issues in Designing Aid

Government policies that deal specifically with childhood poverty are intended to address several broad objectives: to ensure that some minimum level of resources is available to meet the basic needs of children for food, shelter, health care, and other necessities; to protect children from some of the adverse effects that poverty may have, including impairments to their physical and mental development; and to help poor families achieve economic independence. Underlying these policies are concerns to avoid creating incentives for families to break up; to maintain work incentives for those who are able to work; and to provide aid as efficiently as possible. Most people would also argue that government efforts should endeavor to treat similar people similarly, consistent with other policy goals.

While considerable consensus exists concerning policy objectives, there is much less agreement regarding the scope or design of specific policies. Four broad issues arise in designing antipoverty efforts:

What should be the scope of government's responsibility?
Who should be helped?
What form should assistance take?
How should direct aid be delivered?

WHAT SHOULD BE GOVERNMENT'S RESPONSIBILITY?

Society's judgment concerning the appropriate division of responsibilities between the public and private sectors has shifted over time. In the United States until this century, private charity provided a large fraction of aid for poor people; the assistance that came from the public sector was financed almost exclusively by states and localities. During the Depression, however, the scope of poverty increased greatly, and the capacity of the private sector and of subnational governments to address basic needs of the poor diminished; as a result, the role of the federal government was expanded. In addition to the enactment of new programs, the federal government's role as a regulator of economic activity was considerably expanded. For example, the Fair Labor Standards Act of 1938 established a federal minimum wage for many jobs.

With the shift in the economy brought about by World War II, some of the direct federal aid—particularly that which was funneled through states and localities to finance public-sector employment—was phased out. Federal aid expanded again during the 1960's and 1970's, and its scope was broadened significantly. Over the past few years, growth in most assistance programs has been slowed and, in some cases, reversed, but the basic policies remain largely the same.

The effect of federal tax policy on the poor has also varied over time. Prior to World War II, approximately 90 percent of the population was below tax entry levels in the federal income tax. Even in the late 1940s and the early 1950s, tax entry levels were much higher, relative to median family income, than they are now. By 1964, the erosion of the value of the personal exemption led the Congress to enact a minimum standard deduction designed to exempt the very low-income population from the income tax. Enactment of the EITC in 1975 to benefit families with children and creation of the zero bracket amount in 1977 further raised tax entry levels for families with children. In fact, 1975–1979 was the only period during the last 25 years in which tax entry levels significantly exceeded the poverty thresholds. Since that time, a growing proportion of poor families have paid income taxes. Moreover, the Social Security payroll tax rate has risen from 3 percent in 1960 to just over 7 percent in 1985. In 1984, about one-third of all poor families paid some federal tax.

Debate continues as to the appropriate role of government. Some argue that only government can mobilize the resources necessary to help the poor, and that more assistance is needed in light of the recent rise in the number of poor children. Others contend that while some direct government involvement is necessary to ensure that people who cannot support themselves can achieve some minimum level of subsistence, in practice the government has gone well beyond what was needed and has created a welfare class that is dependent on public aid. They argue that only by sharply curtailing government's role can incentives be created for the poor to take the initiative to move themselves out of poverty. Some also contend that certain government efforts to raise the incomes of disadvantaged groups—such as establishing minimum wage rates—have actually made them worse off, and that relaxing or eliminating these laws and regulations will expand their job opportunities.

Disagreement also exists as to the level of government—federal, state, or local—that should provide whatever aid is made available. Some people argue that state and local agencies can better identify the families who are in need of help and the form that assistance should take. Others—citing differences in the willingness and fiscal capacity of different states and localities to aid low-income people—contend that the responsibility for helping meet the minimum needs of those who are least well-off should rest with the federal government. They note that only the federal government is in a position to assure that similar families in different locations are treated similarly.[1]

In the area of tax policy, there is less apparent controversy. Though disagreement about particular means may exist—for example, raising the zero bracket amount or increasing the personal exemption—it is widely held that those with incomes below the poverty lines should not have to pay any income tax.

WHO SHOULD BE HELPED

One of the central issues in designing specific policies intended to reduce childhood poverty or alleviate its effects is who should be helped.

Defining the minimum

From one perspective, deciding who should receive cash or in-kind assistance to help them meet basic consumption needs involves defining the minimum amount of resources that the government should assure is available to support a child. Put another way, at what level of resources should government's responsibility cease? Setting the minimum at a relatively high level provides aid to a greater number of children at a higher cost. It may also extend aid to families in which parents or guardians could support their children without help and may create incentives for people to depend on public aid instead of their own efforts. Setting highly restrictive eligibility requirements—and less generous minimum benefits—decreases government costs and increases incentives for people to become self-reliant, but it also risks leaving some children living below an acceptable standard. At the same time, it is much more difficult to quantify needs for many services and, thus, to determine the minimum amount of aid and who should receive it.

Related to this choice is the question of whether eligibility criteria and minimum benefits should differ geographically. National standards that apply everywhere treat all recipients alike, but they fail to take into account differences among areas, such as in the cost of living, or in the preferences of their citizens for aiding the poor.

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[1] Further, if assistance is locally determined and funded, differences in aid—and in taxes to finance it—might draw some poor people to areas providing higher benefits, and some taxpayers to areas with lower taxes. Only the federal government can ensure that incentives for migration resulting from benefit and tax differentials are avoided.

Defining the household

Another question is whether the type of household in which children live should affect eligibility for assistance. For example, aid can be provided to low-income families with children regardless of the composition of the household; or assistance can be denied to households in which there are two parents, one of whom is physically able to work and is free of child care responsibilities. The former approach assures that some assistance is available to all children living below the minimum established for the particular program, but it increases costs to the government and may reduce incentives that parents have to seek or accept employment. In contrast, denying aid to intact two-parent families reduces government costs and increases the parents' work incentives. It also creates incentives for families to break up, however, and creates hardships for some children—either because of decisions made by their parents or guardians not to work, because the employed adults are unable to earn enough to raise their families to the minimum standard, or because the adults cannot find jobs.

A related question is whether parents or guardians should be required to do some work in exchange for the aid they receive, or if they should be required to participate in training programs to enhance their long-term employment prospects. A work requirement may reduce the net cost of aid, depending on the value of the work done and the expense of administering the work requirement. Such a requirement may also increase the chances that those employed will become self-sufficient in the future. Job-training requirements can have an even greater long-term impact—depending on the effectiveness of the training—but they add to government costs, at least in the short run. Moreover, either approach may require the government to provide or finance child care, since the adults have to be away from their children for some part of the day. Also, if the parents refuse to participate, their children lose government help.

Defining coverage

Still another question is whether aid should be available on an entitlement basis for all individuals who qualify and seek assistance, or if benefits should be provided to only some of those who could qualify. Entitlement programs treat all eligible people alike, but their costs are harder to control, requiring amendments to authorizing statutes. Appropriated programs are easier to control on an annual basis, but they generally result in some potential beneficiaries receiving less help than others, or none at all.

Finally, there is the question of whether people not currently in need should be helped so that they will not become needy in the future. In essence, the choice is when to assist the poor—earlier with preventive efforts, or later with ameliorative ones. Preventive policies may avoid deprivation for children and may reduce federal costs in the long run, but only to the extent that those who are at risk can be identified and effectively served.

WHAT FORM SHOULD ASSISTANCE TAKE

Another issue in designing antipoverty policies concerns the form that assistance from the government should take.

The type of aid

On one level, this concerns whether aid should be provided in the form of cash or in-kind transfers that meet current needs; services to help the poor deal with some of the consequences of poverty; or human capital development programs designed to enhance skills; or other labor market policies that could increase self-sufficiency.[2]

Direct transfers help families meet immediate needs but do not deal with the underlying causes of poverty. Such aid may also reduce people's incentives to support themselves. A secondary issue is whether the government should provide cash or in-kind assistance. The former approach allows recipients to determine what use they make of their additional resources and may be more efficient, since it does not involve the government in deciding how much and what form any good or service should take. On the other hand, providing cash grants to low-income parents and guardians on behalf of their children carries no assurance that the aid will be used to meet particular needs of the children.

Services such as child welfare aid and educational assistance are special forms of in-kind assistance designed to prevent or reduce some of the potential adverse effects of poverty on children. Human capital development programs aimed at parents are designed to attack the causes of poverty by helping families earn more adequate incomes. Neither of these forms of aid offers help in meeting ongoing consumption needs. They may, however, be of great benefit to families who need more than short-term income supplements to overcome the causes or effects of their poverty.

Meeting needs of different types of families

A related question is what forms of assistance are best suited to particular types of poor families with children. The answer depends, in part, on the circumstances facing those families. Table 2-1 classifies poor children by the duration of their spells of poverty and whether adult members of their families are employed.

TABLE 2-1.—DISTRIBUTION OF POOR CHILDREN BY DURATION OF POVERTY AND FAMILY LABOR FORCE ATTACHMENT

[In percent of all children ever poor]

Labor force attachment	Duration of poverty	
	Short term [1]	Long term [2]
Working [3]	59	14
Nonworking [4]	14	14

[1] Poor for fewer than 4 years in a 5-year period.

[2] Poor for 4 or 5 years in a 5-year period.

[3] Head of family (and spouse, if any) worked at least 500 hours in at least 3 out of 5 years.

[4] Head of family (and spouse, if any) worked fewer than 500 hours in at least 3 out of 5 years.

Source: University of Michigan, Survey Research Center analysis of Panel Study of Income Dynamics data for 1968 through 1982.

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[2] Human capital consists of the knowledge, skills, abilities, and experience that a person can use in employment or any other task. It includes basic skills such as reading and writing, as well as specialized skills applicable only to specific jobs. It also encompasses developed traits, such as punctuality and reliability, that contribute to success in labor markets.

Nearly 60 percent (about four in seven) of poor children live in families that have members who normally work at jobs that keep them above the poverty line, but who are not currently employed for enough hours or at high enough wages to escape poverty. In general, incomes of these families—the short-term, working poor—will rise above the poverty thresholds in a relatively short time without intervention. Short-term income supplements can help bridge their periods of poverty, while employment assistance programs and national economic policies that create job opportunities can shorten the length of time that they are poor.

About one in seven poor children lives in a family that is in economic transition—the nonworking, short-term poor. These families are likely either to be headed by single parents—especially single mothers—recently separated, divorced, or widowed, or to be young families just entering their working years. In some of these families, adult members may be able to obtain work fairly easily. In other instances, parents may lack necessary skills or experience. Altering labor market regulations to expand employment opportunities, or increasing training and employment assistance, can help such people find jobs more easily. Income supplements provide them with resources to meet their short-term needs.

Another one in seven poor children is in a family where there is a working adult, but where spells of poverty are lengthy, presumably because earners lack skills or are able to find only intermittent or part-time work. This group is also likely to include families whose size contributes to their poverty. These families may also benefit from training programs to develop labor market skills, in combination with employment assistance to help them find better jobs. At the same time, transfer programs can increase their current resources, while social services can help ameliorate the consequences of their long-term poverty.

The remaining one in seven poor children—and the most difficult group to deal with—lives in a family that has no attachment to the labor market and therefore no likelihood of becoming self-sufficient. These nonworking, long-term poor families include: single-parent families, especially those headed by women, in which child care responsibilities make regular employment difficult; families whose normal earners are disabled to the extent that they cannot work; and families whose adult members have such inadequate skills or labor force attachments that they cannot or will not find and hold jobs. Because they provide essentially no support for themselves through earnings, and because they are poor for extended periods, these families impose the greatest demands on social welfare programs and account for a disproportionate share of those programs' costs. Intensive employment and training programs, as well as child care services, can aid those who have the potential and willingness to work. Workfare programs can also be appropriate for this group and for welfare recipients who can work but choose not to do so. Finally, transfers and social services help those such as the disabled who cannot work.

HOW SHOULD DIRECT AID BE DELIVERED

A final set of questions concerns how direct assistance should be delivered in order to have the greatest impact at the lowest cost. Cash assistance, for example, can be provided either directly or through the administrative apparatus of the income tax system. Providing aid through the federal tax system may, in certain instances, be administratively simpler than through a direct spending program, but it increases the complexity of the tax code and limits aid to those who file returns. Similarly, direct spending programs financed by the Federal government can be administered by the Federal government or by states and localities. More important, however, is the degree of flexibility given to local administrators. Greater flexibility enables them to respond to specific circumstances, but reduces federal control and may lead to differential treatment of similar families.

Other administrative questions arise in particular types of programs. For example, in-kind aid can be provided as actual commodities or as vouchers that can be used to buy specified goods. Services can be provided either by government offices or by publicly funded private agencies. Human capital development can be provided through public schools, other government-operated agencies, or the private sector.

THE CURRENT FEDERAL ROLE

The federal government currently plays a wide and diverse role in aiding poor families with children. Direct assistance policies provide cash, in-kind benefits, services to relieve the problems faced by poor families with children, and employment and training aid intended to help them support themselves in the long run. In addition, federal statutes and regulations affect the availability of low-wage jobs and the minimum amounts that workers can be paid. Finally, the federal tax system in general, and certain provisions in particular, affect the well-being of low-income families.

A number of cash and in-kind assistance programs—plus a tax credit for some families with low earnings—help low-income families with children meet their basic needs.[3] Coverage is uneven, however, and average benefits vary geographically, sometimes greatly. Food Stamps—a federally financed program that helps families afford a minimally adequate diet—is the only assistance that is available to essentially all families in or near poverty. Aid to Families with Dependent Children (AFDC), which provides cash assistance, and Medicaid, which finances health care services, are shared federal/state responsibilities. Aid under these programs is available to most children living in single-parent families with incomes less than state-established minimums that are generally well below the poverty thresholds. States also determine whether assistance is provided to children living in two-parent families. This core of assistance is supplemented by subsidized housing programs, which reduce shelter costs for some low-income families with children; the Earned Income Tax Credit (EITC), which reduces the tax liability, or provides cash payments, for low-income families with children and low earnings; and school-based meal programs that subsidize breakfasts and lunches for low-income children whose schools choose to participate.

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[3] This section considers only programs funded in whole or part by the federal government that are specifically designed to aid the poor. Some serve only children or families with children, while others serve those groups as part of a larger clientele. Other programs not considered here also reduce poverty by providing cash income to various groups. For example, Social Security survivors' benefits paid to spouses and children of deceased workers keep many families out of poverty. Because they are not targeted primarily on poor families, however, they are not discussed in this section.

Further, the focus of this section is on antipoverty programs that have the greatest impact on families with children. Some programs, such as Supplemental Security Income (SSI), benefit a small number of children but are primarily targeted toward other groups—in this case, the elderly and the disabled.

The federal government also provides funding for a broad range of social services and education programs intended to alleviate some of the adverse consequences of poverty, and for employment and training intended to help the parents of poor children work their way out of poverty. Most of this aid is available through annually appropriated programs that serve only a small share of those who are eligible. Finally, direct spending programs are complemented by provisions of the tax system that subsidize wages for low-income workers and that help reduce families' child care costs.

As the following review indicates, current antipoverty efforts vary greatly in who is helped, what form assistance takes, and how aid is financed and administered.

CASH TRANSFER PROGRAMS

Cash assistance is provided to some poor families through the Aid to Families with Dependent Children (AFDC) program and through a provision of the federal income tax (see Table 2–2).

TABLE 2-2.—CURRENT CASH TRANSFER PROGRAMS THAT ASSIST POOR FAMILIES WITH CHILDREN

Program	Aid provided	Eligible groups	Number served in 1984 (millions)[1]	Administered by	Estimated fiscal year 1985 budgetary costs (billions)	
AFDC	Cash grants	Low-income single-parent and some two-parent families with children.	10.9	State	$8.7 7.6 16.4	Federal. State. Total.
Earned income tax credit	Refundable tax credit	Taxpaying units with children and low earnings.	[2] 5.6	Federal	1.9	Federal [3]

[1] Average monthly participation for AFDC; number of tax returns claiming the EITC.

[2] Estimate for calendar year 1986.

[3] Estimate for fiscal year 1986.

Source: Congressional Budget Office and various federal sources.

The AFDC program is the principal federal device to assure that some minimum amount of resources is available to help meet the daily needs of low-income children. States administer the program, operating within federal guidelines, and they are free to establish their own income eligibility requirements and benefit levels. Costs are shared between the federal and state governments. Outlays for AFDC are expected to total $16.3 billion in fiscal year 1985, with slightly more than half contributed by the federal government.[4]

AFDC eligibility criteria and benefit levels vary greatly among states. They reflect differing judgments concerning who should be served and the appropriate scope of aid, and result in widely differing treatment for similar families living in different places. In January 1985, gross income limits for a single parent with two children ranged from $346 per month in South Carolina to $1,576 in Vermont (the median was $779). As of the same date, the maximum benefit for a single-parent, two-child family with no income was as low as $96 per month in Mississippi and as high as $719 in Alaska (the median was $327).

States also differ in their treatment of children of married couples. While children of single parents—and of married couples when one spouse is incapacitated—are eligible in all states, only about half the states allow any children in married-couple families to receive benefits through the unemployed parents program, AFDC–UP.[5] These differences reflect in part differing judgments concerning the tradeoff between maintaining work incentives and encouraging families to remain together.[6] Finally, there are differences among states in whether adult recipients are required to perform some work in exchange for their benefits.

Assistance is also provided to working poor families through the Earned Income Tax Credit (EITC). The EITC may be viewed both as a wage supplement for the working poor with children, and as an offset for Social Security contributions. It reduces tax bills for those who would otherwise owe taxes; it is paid in cash to families with no tax liability who file the necessary forms. For families with very low earnings, this may provide an incentive to work.[7]

IN-KIND TRANSFER PROGRAMS

In addition to providing cash, the federal government provides aid to poor families with children through in-kind transfers for food, medical care, and housing (see Table 2–3).

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[4] The federal share of benefit costs can vary from 50 percent to a maximum of 83 percent, depending on per capita incomes in each state. On average, the federal government pays 55 percent of benefit costs.

[5] The 24 states that offer AFDC–UP generally pay higher benefits and have larger caseloads. About two-thirds of all AFDC families live in those states. States may also provide general assistance to poor families that are categorically ineligible for AFDC.

[6] There are some work incentives within AFDC–UP, since it requires at least one parent to be registered in an employment program. If the primary earner works more than 99 hours per month, however, the family is ineligible for benefits.

[7] For families with earnings above between $6,500 and $11,000, the EITC is a work disincentive, however, since it raises their income and their marginal tax rate, both of which reduce the value of additional work hours.

TABLE 2-3.—CURRENT IN-KIND TRANSFER PROGRAMS THAT ASSIST POOR FAMILIES WITH CHILDREN

Program	Aid provided	Eligible groups	Number of people served in 1984 (millions)	Administered by	Estimated fiscal 1985 outlays (billions)	
Food stamps	Food vouchers	Most low-income families and individuals	[1] 20.9	Federal	$11.5	Federal [1]
					0.8	State.
					12.3	Total.[1]
School lunch, breakfast	Free and reduced-price meals.	Students with family income below 185% of proverty level.	[2] 11.6	State	3.1	Federal.
Medicaid	Free or low-cost medical care.	All AFDC and most SSI recipients; all children under age 5 in families meeting AFDC income and resource requirements (after phase-in); some medically needy.	21.5	State	22.6	Federal.
					17.1	State.
					39.7	Total.
Housing assistance	Subsidized housing units.	Families and elderly and handicapped individuals with low incomes.	9.3	Local	11.0	Federal [3]
Low-income energy assistance	Assistance in meeting home energy costs.	Most low-income families and individuals	NA	State	2.1	Federal.

[1] Excludes food aid to Puerto Rico.

[2] Average daily participation in free and reduced-price lunch programs in October 1984. A total of 3.1 million children received free or reduced-price breakfasts, some of whom also received free or reduced-price lunches.

[3] Excludes outlays of $14 billion to redeem outstanding Public Housing Authority notes used to finance capital costs. Also excludes forgone local property taxes.

Note: NA = Not available.

Source: Congressional Budget Office and various federal sources.

In fiscal year 1985, an average of about 20 million people—over 80 percent of whom are in households with children—will be assisted each month through the Food Stamp program at a total cost of just over $12 billion. This program, benefit costs of which are funded entirely by the federal government, provides vouchers that can be used to buy food products.[8] Nearly all people in families with gross cash incomes below 130 percent of the poverty guidelines, "countable" incomes below 100 percent of the guidelines, and countable assets below $1,500, are eligible.[9] This is the only universally available entitlement among government transfer programs. School breakfast and lunch programs also provide free and reduced-price meals to poor children attending the over 80 percent of schools that offer at least one of the two programs. Federal outlays for these programs are expected to total about $3 billion in fiscal year 1985.

Funded by both states and the federal government, Medicaid finances medical care for all AFDC recipients, almost all families receiving Supplemental Security Income, and other people whom states may designate as "medically needy." Within federal guidelines, Medicaid programs are designed and run by state agencies, with eligibility rules and benefit levels varying widely across states. Over 20 million people currently receive Medicaid benefits, which will cost states and the federal government more than $40 billion in fiscal year 1985.

The bulk of housing assistance is provided through rental assistance programs that currently pay a share of the rent for about 4 million low-income households living either in publicly owned projects or in privately operated dwellings. This aid is primarily targeted to elderly or handicapped individuals and families and to nonelderly families with children; as of 1983, about 41 percent of rental assistance went to the latter group, which made up nearly 45 percent of the eligible population. Eligibility and benefit levels are set by the federal government but vary across housing markets, reflecting differences in family income and housing costs. Spending for housing assistance is expected to total close to $11 billion in 1985. Unlike the other transfers, housing assistance is not an entitlement; it currently serves just under one-third of all eligible households with children.

Eligibility requirements differ greatly among cash and in-kind transfer programs. Rather than serving a single well-defined group of poor families, each program sets its own eligibility criteria—targeting different types of families, while trying to constrain program costs and maintain appropriate incentives related to work effort and family stability. For example, state-specific income cutoffs for AFDC benefits vary from about one-half the federal poverty thresholds to more than twice the poverty levels.[10] By contrast, food stamps are available to families whose gross income are less than 130 percent of the poverty level. Housing assistance is provided almost exclusively to families with incomes at or below half of the local median adjusted for family size—in 1983, the income cutoff for a four-person family ranged from 77 percent to 176 percent of the national poverty threshold.[11]

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[8] Administrative costs are paid essentially equally by states and the federal government. For some specific expenses, such as computerizing case management and combating fraud and abuse, the federal share is greater than half.

[9] Countable income is gross income less a standard deduction and deductions for work expenses, child care, excess housing costs, and medical care for the elderly. Households with an elderly member need not satisfy the gross income test, and may have as much as $3,000 in assets.

[10] For three-person families, income limits for AFDC are based on needs standards that vary among states. Maximum payment levels are well below this, however, ranging from 13 percent to 79 percent of poverty thresholds.

AMELIORATIVE AND PREVENTIVE PROGRAMS

A wide range of programs offer services both to ameliorate the current adverse effects of poverty and to prevent future poverty among children (see Table 2-4). These programs differ from the previously discussed antipoverty programs in a number of ways. First, many of them address specific problems that face some families with children—problems that may or may not be the result of poverty. Therefore, poverty status alone is frequently insufficient to guarantee eligibility, as families must also demonstrate need for the specific services offered. Second, although federal funding is supplied for all of these programs, in some cases it is only a small part of the total expenditure for a particular service. In general, social services are delivered by local agencies under state direction; they are thus unevenly distributed both within and across states. Finally, most of these programs are not entitlements; limited funding can restrict service levels with the result that some areas lack services entirely.

TABLE 2-4.—CURRENT PROGRAMS THAT AMELIORATE THE EFFECTS OF POVERTY ON CHILDREN

Program	Aid provided	Eligible groups	Number of people served in 1984 (millions)	Administered by	Estimated fiscal 1985 outlays (billions)
Social Services Block Grant.	Child care, child welfare, adoption, foster care, family planning, information and referral services.	Determined by state.	NA	State............	$2.8 Federal.

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[11] Asset limits also vary across the various programs. AFDC allows $1,000 of assets (excluding a house and up to $1,500 equity in one car), while families are eligible for food stamps as long as their assets are less than $1,500—$3,000 if there is an elderly member—from which the value of a home, some of the value of cars, and the values of specific other assets are excluded. Housing programs, on the other hand, have no explicit asset limit. If net family assets exceed $5,000, however, the greater of actual asset earnings or an imputed return from assets—using the current passbook interest rate—is included as income in determining eligibility.

TABLE 2–4.—CURRENT PROGRAMS THAT AMELIORATE THE EFFECTS OF POVERTY ON CHILDREN—Continued

Program	Aid provided	Eligible groups	Number of people served in 1984 (millions)	Administered by	Estimated fiscal 1985 outlays (billions)
Child welfare:					
Title IV–B	Foster care payments, child welfare services.	Families in need of child welfare services.	NA	State	0.2 Federal, NA State.
Title IV–E	Foster care payments.	Foster families of children who are eligible for AFDC.	[1] 0.1	State	0.5 Federal, 0.4 State.
Child support enforcement.	Location of absent parents, and assistance in establishing and collecting child support.	All families with an absent parent, with priority given to AFDC recipients.	[2] 8.0	State	0.6 Federal.
Title X of Public Health Service Act.	Family planning services.	All individuals with priority given to low-income clients.	3.7	Federal/local.	0.1 Federal.
Supplemental Food Program for Women, Infants, and Children [WIC].	Nutritional supplements, health care screening.	Nutritionally-at-risk women, infants, and children under age 5, with family incomes below 185 percent of poverty.[3].	[1] 3.0	State/local	1.5 Federal.

TABLE 2-4.—CURRENT PROGRAMS THAT AMELIORATE THE EFFECTS OF POVERTY ON CHILDREN—Continued

Program	Aid provided	Eligible groups	Number of people served in 1984 (millions)	Administered by	Estimated fiscal 1985 outlays (billions)
Head Start	Educational, social, nutritional, and medical services.	Low-income preschool children.	0.4	Federal/local.	1.0 Federal.
Chapter I—Compensatory Education.	Compensatory education.	Educationally disadvantaged children.	[4] 5.9	State/local	3.5 Federal.

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[1] Average monthly participation.

[2] Seventy-seven percent AFDC cases, 23 percent non-AFDC families.

[3] States are allowed to set income eligibility guidelines between 100 percent and 185 percent of poverty. The majority use 185 percent of poverty as the upper eligibility limit.

[4] Because of forward funding, this reflects funding provided in fiscal year 1983.

Note: NA = Not available.

Source: Congressional Budget Office and various federal sources.

The largest general social services program is the Social Services Block Grant, which is currently funded at $2.8 billion. Under this program, states are allowed to fund, at their discretion, a wide range of services—including child care, child welfare, foster care, and adoption services. Other child welfare programs include Title IV-B and IV-E of the Social Security Act, which contribute to state funding for child welfare services. Eligibility for these services is based primarily on need for service, although poverty status is also considered in some cases.

The Supplemental Food Program for Women, Infants, and Children (WIC) provides nutritional supplements to approximately 3 million low-income infants, children, and pregnant women who are at nutritional risk, at a 1985 cost of $1.5 billion. Education programs, such as the Head Start program and Chapter I—Compensatory Education—provide low-income children with educational experiences that they may not receive at home. While Head Start has several other aims as well, these programs share the goal of fostering the children's mental development in order to improve their future ability to learn and become self-sufficient. Finally, programs related to teenage parenthood work to prevent teenage pregnancy and childbearing (which are related to future poverty) through family planning and family life education. These programs also provide services to teenage parents to help them overcome the disadvantages of being an adolescent parent.

PROGRAMS TO PROMOTE EMPLOYABILITY

The federal government sponsors several programs and provides tax credits that are intended to promote employability, either by expanding opportunities for employment and training or by subsidizing child care costs to enable parents to work or acquire additional education (see Table 2-5). The federal cost of these activities is expected to total about $6 billion in the current fiscal year—$3.5 billion in outlays for employment and training programs; $0.4 billion in forgone revenues for a tax subsidy to encourage employers to hire disadvantaged workers; and $2.2 billion in forgone revenues for tax subsidies for child care costs to enable parents to work or attend school.

TABLE 2-5.—CURRENT PROGRAMS TO PROMOTE EMPLOYABILITY FOR POOR FAMILIES WITH CHILDREN

Program	Aid provided	Eligible groups	Number served in 1984 [1] (millions)	Administered by	Estimated fiscal year 1985 budgetary costs (billions)
Job Training Partnership Act [JTPA] Title II-A.	Training and related services.	Economically disadvantaged people.	[2] 1.2	State/local....	$1.9 Federal
JTPA Summer Youth Employment and Training.	Summer jobs	Economically disadvantaged youth.	[2] 0.8	State/local....	0.8 Federal
Job Corps..........	Training and related services in residential centers.	Economically disadvantaged youth.	0.1	Federal..........	0.6 Federal
Work Incentive Program [WIN].	Job search and other assistance to achieve self-support.	AFDC recipients.	0.2	State/local....	0.3 Federal
Targeted Jobs Tax Credit [TJTC].	Tax subsidy for employers hiring eligible workers.	Economically disadvantaged youth, welfare recipients, and other designated groups.	0.6	Federal..........	0.4 Federal

TABLE 2-5.—CURRENT PROGRAMS TO PROMOTE EMPLOYABILITY FOR POOR FAMILIES WITH CHILDREN—Continued

Program	Aid provided	Eligible groups	Number served in 1984 [1] (millions)	Administered by	Estimated fiscal year 1985 budgetary costs (billions)
Dependent Care Tax Credit.	Nonrefundable tax subsidy for child care costs.	Users of child care to enable parents to work or go to school.	5.0	Federal..........	2.2 Federal

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[1] Number of people for JTPA, Jobs Corps, and WIN; number of certifications for TJTC; number of taxpayers claiming the child care tax credit for 1982.

[2] 1984 program year (July 1984 to June 1985).

Source: Congressional Budget Office and other federal sources.

The largest of the employment and training activities is the state block grant program authorized by Title II-A of the Job Training Partnership Act of 1982 (JTPA). Through this program, the federal government provides funds for training and related services for disadvantaged youth and adults. Other programs authorized by JTPA include a summer jobs program and the Job Corps, each of which is exclusively targeted toward disadvantaged youth. These programs are administered by states and localities, which select participants and design training, within federal guidelines. The programs are controlled through annual appropriations and serve only a small proportion of all eligible people.

The Work Incentive (WIN) program—another appropriated program—is targeted exclusively toward AFDC recipients. The workfare components of AFDC and other transfer programs are also intended to increase employment of disadvantaged people. Finally, the Targeted Jobs Tax Credit (TJTC) subsidizes the wages of disadvantaged workers by reducing the tax liability of their employers, thereby improving the workers' employability. Unlike the direct-spending training programs, TJTC is an entitlement.

Employment by poor families with children—and participation in training programs—is facilitated by assistance with child care. Direct subsidies for child care costs are currently provided primarily through the Social Services Block Grant, although data on actual spending by states for this purpose are not available. The dependent care credit in the individual income tax essentially refunds up to 30 percent of a family's child care costs—up to a maximum of $1,440. The credit is limited, however, to the extent of the family's tax liability, since it is not refundable. Businesses are encouraged to provide child care facilities for their employees through the deductibility of the costs of such care and the exclusion of the value of child care from the taxable income of employees.

OVERVIEW OF OPTIONS FOR HELPING CHILDREN IN POVERTY

Options for altering current federal policies to help poor children are as varied as the views regarding the appropriate role of government and the dynamics of poverty. As noted earlier, collective judgments concerning what the direct role of the federal government should be in meeting both immediate and long-run needs of poor children have changed appreciably over time, as reflected in the history of federal involvement. Much disagreement remains concerning the effectiveness of current efforts and the direction that policy changes should take in the future.

THE SCOPE OF POSSIBLE CHANGES

Alternatives to current policies include some that would comprehensively restructure the current welfare system—either by altering it or by doing away with large parts of it—and others that would leave the major elements of it intact, but would change either who is helped, how much assistance is provided to those who are eligible, or how aid is delivered. The variety of both comprehensive and incremental options reflects the wide range of views concerning government's responsibility and how it should be pursued.

Some proposals to substantially restructure the current system are premised on concerns regarding its fragmented nature and its uneven treatment of children living in different types of families or in different places. People who share these concerns have periodically proposed making the federal government fully responsible for providing a minimum income floor for all families with children. Such changes could involve federalizing the AFDC program and, perhaps, Medicaid as well. Under some alternatives, other responsibilities that are now partially federal—such as support for elementary and secondary education—would be shifted entirely to states and localities. Comprehensive proposals of this sort would often involve increasing total federal resources devoted to aiding low-income families with children.

Other proposals for comprehensive change start from a very different premise—that the current public assistance system constitutes a substantial disincentive for low-income people to take responsibility for improving their own well-being. Those who hold this view contend that the federal government could best promote the long-term welfare of poor families by providing less direct aid, thereby compelling them to rely more fully on their own initiative. Some would combine this approach with removal of labor-market regulations that, they claim, substantially restrict the availability of low-paid jobs.

Comprehensive reform of the tax system—such as proposals currently being debated in the Congress—could also substantially affect the well-being of low-income families with children. For example, provisions that determine the tax entry level (the lowest income level at which taxes are owed)—including increasing the zerobracket amount or the personal exemption—could substantially change the tax liability of many such families.

While debate continues concerning these and other possible comprehensive changes, discussions in the Congress each year tend to be dominated by specific proposals to modify existing policies. These incremental approaches also vary greatly, however, reflecting the same disagreements regarding the causes and cures of poverty. Some proposals, for example, would either expand eligibility or increase benefits under existing programs in order to increase resources available to low-income families to meet immediate consumption needs. Others are designed to increase the opportunity for low-income people to become self-reliant, by, for example, increasing direct spending for job training, requiring that public assistance recipients perform some work as a condition of their receiving aid, or altering government policies that may now limit private-sector job opportunities.

OPTIONS EXAMINED IN THIS PAPER

The remainder of this paper describes more than 40 specific options that would alter existing federal policies affecting poor children and their families. While most of the options examined here would be considered incremental changes, some would involve fairly substantial modifications. Also, wide-ranging change could be accomplished by combining some of the individual options discussed here. Comprehensive proposals for wholesale shifts are not considered, nor are proposals to substantially alter how the tax system is structured or how it operates.

Two fundamental issues must be faced in deciding what the federal government should do to aid poor children. First, how effective would a particular approach be? This question is often difficult to answer fully. Even when the amount of aid is easily quantified, as in the case of cash benefits for poor families, it is difficult to know how much assistance actually reaches the children and thus what the impact will be on their well-being. In other cases, such as the provision of many social services, it is inherently difficult to assess the effectiveness of alternative policies. This paper presents evidence about the impacts of existing federal efforts and quantifies, where possible, the likely impacts of program changes on beneficiaries.

Even if there is general agreement that a particular approach is effective, however, the large projected federal budget deficits facing this nation generally require difficult tradeoffs. Because most proposals to modify current policies would require additional outlays or would reduce revenues, other demands on the government and limited tax revenues conflict with the desire to aid these children. As the Congress struggles to reduce deficits, choices among these competing factors are particularly difficult. Estimates of the budgetary effects are presented, when feasible, for the options examined here.

Most of the options that deal with current spending programs or tax provisions would increase federal outlays or lower revenues, either by extending eligibility under current programs to additional families, or by increasing benefit levels for those now eligible. Other options would redistribute benefits from higher-income families to lower-income ones without affecting total spending or revenues. Still others would change program regulations or government policies that affect the operation of labor markets, without altering either direct spending programs or provisions of the federal tax code.

The specific options described below are organized by type of program. Chapter III considers changes in cash transfer programs. Chapter IV assesses ways to modify programs that provide in-kind benefits. Chapter V examines options for altering services that may prevent or ameliorate the effects of poverty. The last chapter discusses possibilities for increasing the employability of members of low-income families with children.

CHAPTER III. OPTIONS FOR CASH TRANSFER PROGRAMS

Means-tested cash transfers are currently provided for families with children primarily through Aid to Families with Dependent Children (AFDC) and, for the working poor, through the Earned Income Tax Credit (EITC). The following options involve modifying these existing transfers or creating a new one.

AID TO FAMILIES WITH DEPENDENT CHILDREN

AFDC is the only major federal program explicitly designed to give cash assistance to families with children. It provides monthly benefits averaging $321 to 3.7 million families with children. While federal guidelines must be followed, states are free to set need and payment levels and some eligibility requirements. As a result, there is wide variation in the terms under which families are given assistance and in the level of assistance they receive.

All states offer AFDC to single-parent families whose gross incomes are less than 185 percent of the state need standard, whose net incomes are below state payment standards, and the value of whose assets is less than $1,000.[1] Maximum benefits that can be paid in 1985 to a family of three range from 13 percent to 79 percent of official federal poverty guidelines. Twenty-four states and the District of Columbia—which together contain about two-thirds of all AFDC participants—also offer benefits through the Unemployed Parents option (AFDC–UP) to poor married-couple families whose primary earners work less than 100 hours per month; the other 26 states do not provide intact families with AFDC cash transfers.[2] Finally, receipt of AFDC benefits automatically qualifies people for Medicaid.

All members of AFDC families who are at least 16 years old are required to register for work and training unless exempted; the most common exemptions are for disability, student status, or the responsibility of caring for a child under age six. Work is further encouraged by the exclusion of some work-related expenses and earnings in benefit computations. For example, families can subtract from their income up to $160 of child care costs per child per month, as well as a standard deduction of $75 per month to cover work-related expenses. In addition, during the first 12 months of program participation, $30 of monthly earnings—and during the first 4 months, one-third of any earnings remaining after other deductions—can be ignored. Each of these exclusions increases the gains from working by allowing AFDC families to keep a larger share of their earnings.

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[1] Exclusive of the value of their homes and of up to $1,500 of equity in one car. States are allowed to set lower asset limits; seven states did so in October 1983.

[2] The 24 states offering AFDC–UP in January 1985 were California, Colorado, Connecticut, Delaware, Hawaii, Illinois, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Washington, West Virginia, and Wisconsin.

Overall, the federal government pays just over half of the costs of state AFDC programs, with the state's share based on its per capita income.[3] The federal share is legislated to be at least 50 percent and can be as high as 83 percent. Currently, however, the largest share paid by the federal government is 78 percent for Mississippi.

The AFDC program could be changed in many ways, depending on the objectives. The wide variation in state benefit payments could be reduced by setting national minimum benefit levels. Relaxing eligibility criteria—either those based on family composition or those limiting financial resources—would allow additional families with children to receive benefits. Recipients could be encouraged to find jobs either by strengthening work requirements in the program or by allowing families to keep more of their earnings. Finally, by assuming a larger share of the costs, the federal government could encourage states to raise their benefit levels.

This paper examines six policy options regarding AFDC. If the Congress chose to modify the program, it could:

—Establish national minimum AFDC benefits;

—Expand AFDC eligibility for two-parent families by requiring all states to offer the AFDC-UP program or by eliminating eligibility distinctions between single- and two-parent families;

—Raise asset limits;

—Require all employable AFDC recipients to participate in work-related activities;

—Change the amounts of earnings that are ignored in benefit calculations (earnings disregards); and

—Raise the share of new benefit increases paid for by the federal government (the federal "matching rate").

The first option would change program eligibility and benefit levels in those states that provide low benefits. The options dealing with married couples would reduce any current incentives to separate or divorce in order to qualify for AFDC. Increasing asset limits would make more low-income families eligible for benefits. Requiring participation in work-related activities might increase recipients' future employability, while raising "earnings disregards" might encourage recipients to work. By lowering state costs, an increase in the federal matching rate for benefit increases could encourage states to raise benefit levels by more than they otherwise would. Almost all the options examined here would, however, add to federal costs.[4]

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[3] States may choose an alternative formula to determine the federal share, but no states currently do so.

[4] The analysis of AFDC options in this section does not consider possible changes in hours worked by AFDC families or additional administrative costs that could arise from increased caseloads. Both factors might result in greater program costs and effects than shown, but their impacts would differ greatly across options. In addition, costs and effects are those that would occur after any phase-in periods; if new participants did not all enroll during the first year the options were in effect, both costs and effects would be smaller than shown for fiscal year 1986.

ESTABLISH NATIONAL MINIMUM AFDC BENEFITS

This option would address low state payment standards and variations across states in those standards by setting minimum benefit levels. The total value of AFDC benefits plus food stamps provided to a family with no other income would be set no lower than 65 percent of the poverty guideline for a family of that size. States with benefits already above the minimum would not be affected, while those with the lowest AFDC payment standards would be required to raise their benefit levels. For families without earnings, minimum AFDC payments in 1986 are projected to be $337 per month for two people, $396 per month for three people, and $467 for four people.[5]

A national minimum would target increased benefits on single-parent families in states with low benefits.[6] This would reduce interstate disparities for single parents—and for some couples—and therefore help to satisfy the objective of treating similar families alike. It would also reduce any incentives that such differentials create for poor families to move to areas with more generous benefits.

At the same time, setting minimum benefit levels in dollar terms would ignore cost-of-living differences among geographic areas, although benefit levels would still vary because of state supplements. While precise data do not exist, there is evidence that rural areas and the South have lower costs of living than do urban areas and other regions. Further, requiring low-benefit jurisdictions to increase payment levels could make welfare benefits a high percentage of potential earnings in low-wage areas, and thus lead to significant work disincentives. Finally, states that were forced to raise benefits significantly could experience budgetary problems.

An estimated 41 states would have to increase benefits above current levels for at least one family size in order to satisfy the requirements of this option in 1986. For 2.2 million families currently participating in the program (about three-fifths of all AFDC families), this would increase monthly benefits by an average of $111. At the same time, this rise in cash income would reduce benefits by about $38 per month for those families in the Food Stamp Pro-

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[5] Several options examined in this chapter are based on H.R. 4920, as requested by the Committee on Ways and Means. This bill—H.R. 4920—introduced in the 98th Congress—would require that the HHS poverty guidelines be projected ahead 1 year for use in setting these minimum benefit levels. Thus, in 1986, projections of the 1987 guidelines would be used.

The calculation of specific minimum benefits is as follows. Food stamp benefits equal the thrifty-food plan (TFP) less 30 percent of countable income—AFDC benefits minus a $100 standard deduction. For the three family sizes, these yield:

Family size	65 Percent of poverty	AFDC benefit	Food stamp benefit	TFP
2	420	337	83	154
3	528	396	132	221
4	636	467	169	280

[6] Benefits would go primarily to single-parent families because those states that would be most affected by the required benefit increase do not provide AFDC-UP and therefore give no benefits to married couple families.

gram.[7] An estimated 190,000 families would become new AFDC recipients, receiving average payments of $197 per month.[8] About 80 percent of new and increased benefits would go to families below the poverty level, which would cause the poverty gap—as measured by official poverty statistics—to decline by $2.7 billion.[9] Roughly 0.1 million families would be moved above the poverty level, about 5 percent of the poor families affected.

Total AFDC costs would increase by $3.4 billion, $2.1 billion of which would be borne by the federal government and the balance by the states.[10] The federal costs would be offset by $0.9 billion in food stamp savings and raised by $0.1 billion in Medicaid expenditures for new participants. The new participants would boost state costs by another $0.1 billion. Thus, the total cost of implementing this option would be $2.7 billion in fiscal year 1986, with about 48 percent of the net costs falling on the federal government. Because poverty thresholds are indexed to rise with the Consumer Price Index (CPI) and have risen faster than AFDC benefit levels in recent years, this increase in costs would climb in future years to a total of $3.7 billion in fiscal year 1990.

The national minimum benefit level could be at other fractions of the poverty thresholds. Table 3-1 compares the effects ot fixing the minimum at 60 percent, 65 percent, and 70 percent. Compared with the 65 percent option, the lower minimum would affect about 700,000 fewer families and would lower incremental AFDC costs by about 40 percent in 1986. About 1.6 million families currently getting AFDC would receive benefit increases averaging about $89 per month, and 0.1 million families would come into the program and get monthly benefits averaging $195. The official poverty gap would decrease by roughly $1.6 billion, or by 40 percent less than under the 65 percent option. Setting the minimum at 70 percent would raise incremental AFDC costs by half and would affect about 0.2 million more families than the original option. Current beneficiaries would average $160 in additional monthly benefits.

about $38 per month for those families in the Food Stamp Pro-

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[7] Food stamp benefits are reduced, on average, about 34 cents for each dollar of additional cash income. For example, a $20 rise in AFDC would cause a food stamp cut of $6.80 (=0.34 × $20), all of which would represent savings to the federal government. The net gain to the recipient would be $13.20 (=$20 rise in AFDC—$6.80 drop in food stamps). This would apply to any option in which AFDC or other cash beneftis would be increased for food stamp recipients.

[8] New recipients would be of two types: those families that were previously eligible but chose not to participate, and those made newly eligible by increased payment levels. It is assumed that higher benefits would induce about 25 percent of the estimated 240,000 currently eligible, nonparticipating families in affected states—or 55,000 families—to enroll in the program. Fifty-seven percent of the estimated 235,000 families that would become newly eligible—or 135,000 families—are projected to enroll. Total new participants would thus be 190,000 families.

[9] The poverty gap would decline by less if an alternative measure that included in-kind benefits as income were used. Food stamp benefits going to poor families would fall by about $0.9 billion, while Medicaid costs for this group would rise by about $0.2 billion. Depending on the valuation method used, these effects would cause the net change in the poverty gap for poor families with children to decrease by about $2 billion.

[10] The federal share is greater than the current 54 percent average because federal matching rates tend to be higher in states that now have the lowest payment standards.

TABLE 3-1.—ESTIMATED IMPACTS OF ALTERNATIVE MINIMUM BENEFIT LEVELS, FISCAL YEAR 1986

Minimum benefit (percent of poverty) threshold	Increase in AFDC costs (billions)			Affected beneficiaries (millions)		Affected States
	Federal	State	Total	Current	New	
60	1.3	0.7	2.0	1.6	0.1	33
65	2.1	1.3	3.4	2.2	0.2	41
70	3.1	2.0	5.1	2.3	0.3	43

Source: Congressional Budget Office.

EXPAND AFDC UNEMPLOYED PARENTS PROGRAM

Married couples with children are eligible for AFDC benefits only if their primary earners are unemployed and if their states of residence have chosen to offer benefits under the optional Unemployed Parent program (AFDC-UP).[11] At least one unemployed adult must have been employed in 6 of the previous 13 quarters and all nonexempt adults must be actively seeking work. Because unemployment is defined as working fewer than 100 hours per month, some families with part-time workers are eligible for benefits. Currently, 24 states and the District of Columbia offer AFDC-UP. In 1984, an average of 285,000 AFDC-UP families—7.7 percent of all AFDC families—received monthly benefits averaging $468.

Two options to expand AFDC eligibility for two-parent families are discussed below:

—Make the current AFDC-UP program mandatory for all states;

—Extend AFDC eligibility to all low-income, two-parent families, regardless of labor force status.

Make AFDC Unemployed Parents Program (AFDC-UP) mandatory for all states

At present, unless one spouse is incapacitated, married couples with children are categorically ineligible for AFDC benefits in the 26 states that do not have AFDC-UP programs. In these states, intact families qualify for assistance only through limited, state-financed general assistance programs or through Supplemental Security Income (SSI) for families with disabled earners. This option would require all states to offer AFDC benefits to low-income, married-couple families with children under the AFDC-UP program. Only the 26 states that do not now have AFDC-UP programs would be affected. In 1984, these states had about one-third of the AFDC caseload.

This option would encourage families to stay intact by reducing the current incentive for one parent to leave home so that the family can become eligible for AFDC.[12] Families would be treated more uniformly, as eligibility for benefits would be based on need rather than on family characteristics. This change would provide additional assistance to some families whose unemployment insurance eligibility has expired, and would thus expand countercyclical activity during recessions. Moreover, because the AFDC-UP program requires the unemployed person to have worked in the past and to be actively seeking a job, this option would provide additional incentives for poor families to join or remain in the labor force. Further, since the primary earner can be employed up to 99 hours per month without losing eligibility, extending the program would not discourage part-time employment while workers seek full-time jobs. Finally, since AFDC families are automatically eligible for Medicaid, health care coverage would be extended to some families that do not now receive adequate medical care.

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[11] Requirements of the AFDC-UP program are in the Social Security Act, section 407 (42 U.S.C. 607). See footnote 2 of this chapter for a list of states having an AFDC-UP program in January 1985.

[12] The incentive would still exist if the parent worked more than 100 hours per month.

This option could have significant drawbacks. First, it would take away from the states the authority to determine to whom assistance should be extended. Some states may view intact families as those most able to help themselves and thus least in need of aid. Second, to the extent that transfer programs provide disincentives for recipients to work, this option could reduce hours worked by eligible families, despite job-search requirements. Third, only families whose principlal earners were either unemployed or working less than 100 hours per month would be assisted; no aid would be offered to poor families with full-time, low-wage workers. Finally, requiring AFDC-UP for all states would impose an increased financial burden on states that do not currently offer the program, as well as on the federal government. This requirement could also exacerbate the fiscal difficulties faced by those jurisdictions with budget problems and might lead states to reduce benefit levels.

About 100,000 additional families would become eligible for benefits in 1986 if all states operated AFDC-UP programs. Of these, an estimated 75,000 families—26 percent of the 1984 AFDC-UP caseload and 2 percent of all AFDC families—would become new recipients with average monthly benefits of $228. Nearly 80 percent of the new families would be in the South—where only the District of Columbia and 3 of 17 states now have AFDC-UP programs—and another 17 percent would be in the West—where 4 of 13 states offer AFDC-UP.

New fiscal year 1986 costs to the federal government would be about $0.2 billion, while the states would pay a similar amount. Because benefit levels are far below poverty thresholds in states without AFDC-UP programs, there would be virtually no effect on official poverty rates, but the officially measured poverty gap would be reduced by roughly $0.1 billion, about three-fifths of 1 percent.[13]

Since AFDC-UP provides benefits for families with unemployed workers, the costs and impacts of this option would depend heavily on macroeconomic conditions and the unemployment rate. The foregoing estimates have assumed an unemployment rate of 7 percent. With an unemployment rate of 9 percent instead, about 160,000 families would become newly eligible and nearly 100,000 families would become recipients; total costs would rise by about $0.5 billion, split fairly evenly between federal and state governments. Conversely, if the employment rate were 6 percent, the effects would be reduced by nearly one-fourth. Under the Congressional Budget Office's baseline economic projections—which assume that unemployment will decline to between 6 percent and 6.5 percent by the end of the decade—estimated incremental costs would average between $0.4 billion and $0.5 billion per year between now and 1990.

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[13] Changes in poverty gaps and rates using alternative measures would be similar. Reduced food stamp benefits would roughly balance out gains from the receipt of Medicaid benefits. Thus, counting in-kind benefits as income would have little, if any, effect.

Extend AFDC eligibility to all low-income, two-parent families, regardless of labor force status

A more extensive option would require all states to provide AFDC payments to all families with children that meet income and asset requirements, regardless of their current or past employment. States would be allowed to limit receipt of benefits to six months out of twelve and to set stricter work requirements than for single-parent families. In addition, the federal government would increase its share of program costs to 75 percent for married-couple families.[14]

This option would address the objective of treating similar families alike by eliminating labor force status as a requirement for eligibility. In addition, it could provide a work incentive for families currently getting AFDC-UP, encouraging them to work as many hours as they are able without fear of losing all benefits (particularly Medicaid, for which AFDC receipt makes them eligible). Finally, it would reduce incentives for low-income working couples to break up so that the children and one parent could qualify for AFDC.[15]

On the negative side, possible work disincentives from the AFDC-UP limits on employment could be replaced by work disincentives arising from reductions in benefits as earnings increased and from the higher transfer incomes received. Second, extending AFDC to all poor families with children—regardless of hours worked—would impose a considerable financial burden on the federal government and the states in a time of fiscal stress. While the increased share of costs falling on the federal government would lessen the impact on state budgets, it would exacerbate federal budget problems.

An estimated 450,000 families would become AFDC recipients if this option were implemented. Under the assumption that states would provide benefits for only 6 months each year, payments would average about $397 per month during the 6-month benefit period. Because benefit levels are generally well below poverty, there would be virtually no effect on poverty rates. The official poverty gap for poor families with children would decrease by about $0.8 billion—roughly 3.3 percent.[16]

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[14] These additional requirements are included to make this option the same as that in H.R. 4920. Note that, in effect, this option would require all states to offer AFDC-UP programs. The analysis in this section assumes that states would elect to pay benefits for exactly 6 months out of each year and that work requirements would not be changed. If states chose to pay benefits for longer periods, the effects and costs would be greater. Stricter work requirements would likely reduce participation, but the size of the effect would be hard to estimate. Maintaining current cost divisions between federal and state funding would shift costs from the federal government to the states, relative to what is reported here.

[15] The incentive would still exist if one parent had income that would make the family ineligible. By separating, such a family might receive greater total income.

Federal costs of this option in fiscal year 1986 would be $1.3 billion: about $1.1 billion for AFDC payments and $0.4 billion for Medicaid payments, with savings of $0.3 billion in food stamps. Because the federal share of AFDC-UP benefits for two-parent families would be raised to 75 percent, states as a group would save about $0.1 billion in AFDC costs.[17] Replacement of general assistance with AFDC would save another $0.1 billion in state costs, but these savings would be more than offset by $0.4 billion in additional state Medicaid costs. Overall, states would spend an additional $0.2 billion. The total increase in costs—federal and state—would be roughly $1.5 billion.[18]

RAISE AFDC ASSET LIMITS

In addition to income-eligibility requirements, AFDC recipients must satisfy an asset test. Currently, an AFDC family cannot have more than $1,000 in countable assets. Excluded from these assets are the family's home, basic maintenance items such as clothing and furniture, and one car with an equity value of up to $1,500. The asset limit is fixed in dollar terms and therefore has become more restrictive in real terms over time.

This option would increase asset limits to $2,250 (and to $3,500 for families with at least two members, one of whom is age 60 or over). In addition, the value of life insurance would be excluded, and treatment of automobiles would be liberalized.[19] The new limits were recommended for the Food Stamp Program by the President's Task Force on Food Assistance, primarily in recognition of the fact that inflation had eroded the real value of the asset limits.

Higher levels of allowed assets would mean that families would not have to spend as much of their savings to qualify for benefits. Having some assets to meet unexpected emergencies is important both psychologically and practically. In addition, as the President's Task Force on Food Assistance noted, some countable assets—such as recreational vehicles—are not readily marketable; increasing asset limits would allow families to have some such assets without losing eligibility. Finally, the Task Force noted that, because of time lags in actually getting program benefits, "households living off their assets may get precariously close to complete depletion of assets before they fall to the eligibility level and benefits begin."[20] Higher limits would allow for a greater margin of safety.

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[16] To the extent that states permitted benefits for more than 6 months, the poverty gap would fall further.

[17] Such savings would go only to states now offering AFDC-UP because other states currently have no costs.

[18] Because of the large number of new participants, this option could also cause a significant increase in administrative costs—perhaps as much as $0.2 billion annually. Further, the availability of AFDC benefits would encourage some two-parent families to work, which could raise costs by as much as $0.1 billion per year.

[19] Two tests would be used for cars. The market value test would count the market value of each car, only to the extent that it exceeded $5,500. The equity test would exclude one car—and a second if it was needed for employment—but would count the full equity value of all other cars. The greater of the market and equity values would then count against the overall asset limit.

[20] "Report of the President's Task Force on Food Assistance," (1984), p. 43.

On the other hand, it has been argued that programs such as AFDC are for those truly in need and that families with significant assets are not in need since they could use those assets. In addition, raising asset limits would allow some families who are without income for only a short period to receive benefits, even though their assets are more than adequate to tide them over until their incomes recover.

Because data on assets are scarce, it is difficult to estimate accurately the effects of this option. There would be no effect on families currently on AFDC, but between 45,000 and 140,000 families that are not now eligible could come onto the rolls. Besides average AFDC payments of about $326 per month, these families would also be eligible for Medicaid benefits. At the same time, for those new recipients currently in the Food Stamp Program, monthly food stamp allotments would be reduced by as much as $100 or more because of the increase in their cash income.[21]

In fiscal year 1986, AFDC costs would rise by between $0.2 billion and $0.5 billion, and Medicaid costs would increase by between $0.1 billion and $0.2 billion. These increases would be partially offset by food stamp savings of $0.1 billion or less. The net cost in fiscal year 1986 would be between $0.2 billion and $0.7 billion, shared roughly equally by the federal government and the states.

Assets limits could be set at other levels than those described above. If they were made equal to those now used for food stamps ($1,500 for nonelderly families), between 10,000 and 85,000 families would participate in AFDC. AFDC costs would increase by as much as $0.3 billion in fiscal year 1986. Alternatively, if the asset restrictions were eliminated, the AFDC caseload would grow by between 200,000 and 425,000, or 5 percent to 12 percent of families currently in the program. AFDC costs would increase by between $0.7 billion and $1.5 billion in 1986.

REQUIRE EMPLOYABLE AFDC RECIPIENTS TO PARTICIPATE IN WORK-RELATED ACTIVITIES

Current rules governing the receipt of AFDC require all members of AFDC families who are at least 16 years old to register for work and training unless exempted. The Omnibus Budget Reconciliation Act of 1981 (OBRA) authorized states to strengthen these rules by requiring certain recipients to work in exchange for their benefits. In response to this legislation, about half of the states implemented some type of employment-related program, although in most cases the program is not statewide. Under these "workfare" programs, recipients work for a specified number of hours each month, the number depending on the size of their benefit.

One option would be to require all states to implement work-related programs for AFDC recipients on a statewide basis. Proponents argue that current AFDC rules in jurisdictions that have not implemented workfare allow recipients who could work to choose not to do so, and that making participation in workfare or related programs a condition of eligibility would limit this possibility. Proponents also claim that requiring recipients to work for their benefits would raise the dignity of the recipients, as well as provide a better example for other family members. Moreover, they contend that workfare would provide welfare recipients with opportunities to increase their skills and credentials so that they could become self-sufficient.

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[21] The food stamp asset limits are $1,500 ($3,000 for households with elderly members); exclusions include the home, personal items such as furniture and clothing, and some of the equity in automobiles. Because these limits are above those currently used for AFDC, some families denied AFDC because they have too high a value of assets may be eligible for food stamps. At the same time, because the asset limits in this option would be greater than the food stamp limits, not all families that would become eligible for AFDC would qualify for food stamp benefits.

On the other hand, opponents dispute many of these claims. Some view workfare as unnecessary and punitive, arguing that only a small percentage of AFDC recipients choose not to work. Moreover, they believe that requiring recipients to work at assigned jobs could, in itself, be demeaning and subject to abuse. Opponents also question the value of the skills and credentials that would result from employment under these terms. They contend that the value of the goods and services produced might be low, relative to the cost of creating the jobs and supervising the participants. Many of these issues are analogous to those raised with respect to the public service employment components of the former Comprehensive Employment and Training Act.

It is not clear whether workfare would reduce net welfare costs. The net cost or savings would depend on the costs of administering workfare, its effects on the welfare caseload, and the value of the goods and services produced by the participants. A key issue is whether workfare would reduce the number of people receiving AFDC—either in the short run because some recipients might voluntarily leave AFDC in preference to taking a work assignment, or in the long run by equipping participants with skills and experience that would enable them to become self-sufficient.

Reliable information does not yet exist to answer the empirical questions raised by proponents and opponents of workfare. Several of the work-related demonstration programs that states established in response to the OBRA provision are currently being evaluated. These studies should soon provide a much better basis for assessing the feasibility and cost-effectiveness of workfare strategies than now exists.[22]

LIBERALIZE THE AFDC EARNINGS DEDUCTIONS

Under current law, part of an AFDC family's earnings are excluded when payment levels are determined. Benefit calculations deduct from income $75 for work-related expenses monthly and child care costs up to $160 monthly per child. In addition, during the first 12 months of payments, $30 of earnings per month are excluded, as is one-third of remaining earnings during the first 4 months. The only deduction allowed from unearned income is $50 monthly in child support payments. Thus, a single mother earning $500 per month and paying $200 monthly for day care for two children would have countable income of $130 for the first 4 months, $195 for the next 8 months, and $225 thereafter (see example below). In this example, because benefits are reduced by $1 for each $1 of countable income, the family's AFDC payment would decrease by $65 after 4 months and by another $30 after 12 months.

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[22] The Manpower Demonstration Research Corporation (MDRC) is evaluating employment initiatives for welfare recipients in eight states, using experimental designs in which eligible welfare recipients are randomly assigned to workfare (or other) activities or to control groups. Preliminary findings for a program in San Diego, CA, for example, indicate the feasibility of implementing two program models. One program required eligible welfare applicants to participate in a 3-week job search workshop; another required applicants who completed the workshop but were unable to find jobs to participate in a 13-week unpaid work project. See Barbara Goldman and others, "Findings from the San Diego Job Search and Work Experience Demonstration," MDRC (March 1985).

Current Treatment of Earnings Deductions in AFDC

This example assumes a family composed of a single mother with two children, earning $500 per month and paying $200 monthly for day care. Maximum AFDC benefits for such a family are assumed to be $327.

	Months of employment		
	1 to 4	5 to 12	Over 12
Calculation of countable income:			
Gross earnings	$500	$500	$500
Less deductions:			
Work-related expenses	−75	−75	−75
Day care	−200	−200	−200
$30 (first 12 months)	−30	−30	
⅓ (first 4 months)	−65		
Countable income	130	195	225
Calculation of AFDC benefits:			
Maximum AFDC payment	327	327	327
Less countable income	−130	−195	−225
AFDC benefits	197	132	102

While an option to allow workers to retain more of their earnings could be framed many ways, the particular form considered here would change the work expense deduction to 20 percent of gross earnings up to a maximum deduction of $175; cap the monthly child care deduction at $320; and raise the amount of earned income excluded to $50 per month and one-fourth of additional earnings without any time limit.[23] The entire value of the earned income tax credit (EITC) and the first $50 of monthly unemployment compensation would be subtracted from income as well. Finally, the gross income limit of 185 percent of each state's need standard would be removed.

Increasing the amount of earnings that is not counted in calculating benefits could give AFDC families a greater incentive to work, since they would be allowed to retain a larger fraction of earnings as a net income gain. To the extent that AFDC families would work and earn more as a result, this would lead to lower program costs as earnings would replace some benefits. Changing the work expense deduction to a percentage of earnings would reflect more accurately some costs of working—namely, payroll and income taxes, which have become increasingly important for the poor.[24] Removing the time limit on the general earnings deductions would eliminate the reduction in benefits that occurs after 4 months and again after 12 months that is imposed on working families—but not on those who do not work. Finally, dropping the gross income eligibility requirements would recognize that some families with high gross incomes are in need of assistance because of higher than normal expenses or because of large family size.

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[23] This option reflects the provisions of H.R. 4920. In addition, the "$50 and one-fourth" deduction would apply in the eligibility determination as well as the benefit calculation. Currently, eligibility requirements are that gross income be less than 185 percent of the state need standard and that countable income before deducting the $30 and one-third is also less than the state need standard. Only after eligibility is determined is the $30 and one-third deduction used to calculate benefits. It should be noted, however, that the eligibility calculation is made only when the family enters the program.

The option can be criticized on a variety of grounds. First, it can be argued that work expense deductions ought to be only for actual expenses, not a fraction of income. Because circumstances differ among families, a fixed percentage deduction can overstate costs for some and understate them for others.[25] Second, along similar lines, capping the child care deduction denies exclusion of costs that large families incur in obtaining care for many children. Such families could be discouraged from obtaining jobs if full child care costs were not deductible. Finally, critics argue that recent evidence about the effects of reducing earnings disregards in 1981 indicates that the disregards may actually be work disincentives.[26] If so, increasing the disregards may actually make working families more dependent on welfare.

Except for the "$50 and one-fourth" earnings deduction, the provisions of this option would individually have only small budgetary effects. Table 3-2 summarizes the state and federal costs of each part of the option and of the entire package. The total fiscal year 1986 cost would be about $0.5 billion, somewhat over half of which would be attributable to the $50 and one-fourth deduction alone. Increased AFDC benefit costs would be $385 million and Medicaid costs would rise by $175 million, while reduced food stamp benefits would save the federal government about $100 million. The latter savings would limit the federal share of the incremental cost to 43 percent.

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[24] Married couples with two children and earnings at the poverty line now pay over 10 percent of their income in Federal income and payroll taxes. In 1978, the comparable value was 4 percent. (WCMP 98-15, p.151)

[25] The same objection could be raised against the current work expense deduction as well. The proposed deduction is probably a more accurate reflection of costs than is current law.

[26] It was found that ". . . people leaving the welfare rolls after the (1981) cuts were actually less likely to return to welfare than people who had left the rolls when all the work incentives were still in place." Nicholas Lemann, "The Culture of Poverty," Atlantic Monthly (September 1984), p. 38.

TABLE 3-2.—COSTS OF INCREASING DEDUCTIONS FROM INCOME, FISCAL YEAR 1986

[In millions of dollars] [1]

Change	Costs		
	Federal	State	Total
Deduct 20 percent of gross earnings up to $175 per month	15	20	35
Cap a family's child care deduction at $320 per month	(²)	(²)	(²)
Deduct $50 and one-fourth of net earnings	105	130	235
Eliminate gross income limit	10	15	25
Disregard EITC	5	10	15
Disregard $50 of monthly unemployment compensation	15	15	30
Total [3]	195	260	455

[1] Costs are for AFDC, Medicaid, and food stamps.

[2] Less than $5 million.

[3] Total costs are greater than the sum of the separate provisions because of interactions among them.

Source: Congressional Budget Office.

There would be losers as well as gainers among current recipients. Families with earnings below $375 per month would be adversely affected by the change in the work expense deduction, while those with higher earnings would gain. The shift in the earnings deduction from $30 and one-third to $50 and one-fourth would generate higher benefits for families with earnings (net of work expense and child care deductions) below $210 and lower benefits for those with higher earnings.[27] In addition, eliminating the time limit on earings deductions would raise benefits for families that have had earnings for 4 consecutive months while in the program. The child care expense cap would reduce AFDC payments for families with expenses above $320 per month. If all the deduction options were implemented, about 60,000 families would lose an average of roughly $15 per month in benefits in 1986, while over 150,000 families would have their benefits increased by $69 per month on average.

The new provisions would also make more families eligible for AFDC, primarily because of the $50 and one-fourth deduction. An estimated 190,000 families would enter the program and receive monthly benefits averaging $116. Because recipients have incomes that are generally far below poverty thresholds, there would be little effect on poverty rates. The poverty gap would be reduced by about 1 percent, or roughly $0.2 billion. Table 3-3 summarizes these effects.

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[27] This would be true only during the first 4 months of work, since the one-third reduction currently is available only during that period.

TABLE 3-3.—ESTIMATED EFFECTS OF LIBERALIZING EARNINGS DISREGARDS ON BENEFITS OF AFDC FAMILIES, FISCAL YEAR 1986

	Families affected		Average monthly benefit change
	Number	Percent of affected families	
Gainers:			
Current AFDC families	155,000	38	$69
New AFDC families	190,000	47	116
All gainers	345,000	85	95
Losers:			
Current AFDC families	60,000	15	−15
All affected families:			
Current AFDC families	215,000	53	46
New AFDC families	190,000	47	116
All AFDC families	405,000	100	79

Source: Congressional Budget Office.

RAISE FEDERAL MATCHING RATE ON NEW BENEFIT INCREASES

Between 1970 and 1985, the real value of AFDC benefits fell as states failed to increase payment levels in line with inflation. In 13 states, maximum benefit levels declined by at least 40 percent in real value, and in the median state the real value decreased by 33 percent. Only three states—California, Maine, and Wisconsin—raised benefits by as much as the change in the CPI. Table 3-4 shows changes in AFDC benefit levels between 1970 and 1985.

This option would encourage states to maintain real AFDC benefits by reducing the state matching rate by 30 percent for any increases made after a selected date. For example, if the state matching rate was 40 percent, the matching rate for benefit increases would be 28 percent. Because of the interaction between AFDC and food stamps, states currently bear more than their matching rate share of the costs of providing higher AFDC benefits. A $20 AFDC increase reduces food stamp benefits by $6, so the net gain to recipients is $14; if the state matching rate is 50 percent, the state's costs are raised by $10—half of $20—while the federal cost for AFDC and food stamps combined climbs only $4. The effective state matching rate is thus 71 percent, or 21 percentage points above the statutory maximum of 50 percent.[28]

Reducing the state matching rate on benefit increases by 30 percent would make the effective matching rate equal to the statutory rate.[29] Lowering their costs of raising benefit levels might make states more willing to do so. To the extent that this was done, poor families with children would be better protected against inflation.

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[28] Of the $14 increase in purchasing power for the recipient, 71 percent (=$10/$14) comes from the state and only 29 percent (=$4/$14) from the federal government.

[29] In the example given, the effective state matching rate on the benefit increase would be 35 percent, 30 percent less than the original matching rate of 50 percent (35 percent=0.7×50 percent). The federal government would then pay $13 (=65 percent of $20) for AFDC and save $6 (=30 percent of $20) on food stamps for a net cost of $7, while the state would pay $7 (=35 percent of $20) more for AFDC.

TABLE 3-4.—CHANGES IN MAXIMUM AFDC BENEFITS FOR A FOUR-PERSON FAMILY, BY STATE, 1970 TO 1985

	July 1970 benefit	January 1985 benefit	Changes (percent)	
			Current dollars	Constant dollars
Alabama	$81	$147	81	−33
Alaska	375	800	113	−21
Arizona	167	282	69	−38
Arkansas	100	191	91	−29
California	221	660	199	10
Colorado	235	420	79	−34
Connecticut	330	636	93	−29
Delaware	187	336	80	−34
District of Columbia	238	399	68	−38
Florida	134	284	112	−22
Georgia	133	245	84	−32
Hawaii	263	546	108	−23
Idaho	242	344	42	−48
Illinois	282	368	30	−52
Indiana	150	316	111	−22
Iowa	243	419	72	−36
Kansas	244	422	73	−36
Kentucky	187	246	32	−51
Louisiana	109	234	115	−21
Maine	168	465	177	2
Maryland	196	376	92	−29
Massachusetts	314	463	47	−46
Michigan [1]	263	512	95	−28
Minnesota	299	611	104	−25
Mississippi	70	120	71	−37
Missouri	130	308	137	−13
Montana	228	425	86	−31
Nebraska	200	420	110	−22
Nevada	143	279	95	−28
New Hampshire	294	429	46	−46
New Jersey	347	443	28	−53
New Mexico	182	313	72	−37
New York [2]	336	566	68	−38
North Carolina	158	244	54	−43
North Dakota	261	454	74	−36
Ohio	200	360	80	−34

TABLE 3-4.—CHANGES IN MAXIMUM AFDC BENEFITS FOR A FOUR-PERSON FAMILY, BY STATE, 1970 TO 1985—Continued

	July 1970 benefit	January 1985 benefit	Changes (percent)	
			Current dollars	Constant dollars
Oklahoma	185	349	89	−30
Oregon	225	468	108	−23
Pennsylvania	313	444	42	−48
Rhode Island	263	[3] 547	108	−23
South Carolina	103	229	122	−18
South Dakota	300	371	24	−54
Tennessee	129	168	30	−52
Texas	179	201	12	−59
Utah	212	425	100	−26
Vermont	304	622	105	−24
Virgina	261	379	45	−46
Washington	303	561	85	−32
West Virginia	138	249	80	−33
Wisconsin	217	636	193	−8
Wyoming	227	310	37	−50
Median State [4]	221	379	81	−33

[1] Michigan data are for Detroit only.

[2] New York data are for New York City only.

[3] Winter rate (November through April). Summer rate was $440 in 1984.

[4] Among 50 states and the District of Columbia.

Sources: U.S. House of Representatives, Committee on Ways and Means, "Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means," Committee Print 99-2 (Feb. 22, 1985), pp. 352–353, and Congressional Budget Office.

At the same time, the higher federal matching rate would provide a windfall gain to states that would have raised their benefits anyway; the federal government would pay 30 percent of the additional costs that would otherwise have been borne by the states. Further, this option might lead to wider variation in benefit levels across states, since some states would still be more likely to raise benefits than others. If the goal is to ensure that real benefit levels are maintained or that benefits are more uniform, a more direct approach such as mandatory minimum real benefit levels or a national minimum (see above) might be more effective and less costly.

Since the reactions of the states are unknown, the effects of this option are impossible to predict with confidence. It is likely, however, that states would, at a minimum, continue to raise nominal benefit levels at the same rate they have in the past; on that assumption, a minimum estimate of costs can be made. Under this scenario, there would be no effect on AFDC recipients, but part of the state share of program costs would be shifted to the federal government. A maximum estimate of costs can be made by assuming that states would respond to the higher federal matching rate by raising benefits faster than in the past—for example, by amounts that would leave their costs unchanged. Under these scenarios, and assuming implementation in fiscal year 1986 for benefit increases relative to December 1983 levels, federal costs would rise by between $0.1 billion and $0.2 billion in 1986, rising to between $0.4 billion and $0.9 billion by 1990. States would save as much as $0.1 billion in 1986 and $0.4 billion in 1990.

Because of the nature of this option, the effects on AFDC recipients cannot be estimated with any degree of accuracy. Some states would likely raise benefits more than otherwise, while others would not, and it is impossible to predict which states would follow which course. The most that can be concluded is that some families would benefit, although their numbers and the size of their payment increases cannot be estimated.

COMPARISON OF AND INTERACTIONS AMONG AFDC OPTIONS

While most of the options discussed above would, on average, increase either the number of recipients or average benefit levels or both, their costs and effects would vary widely. If more than one option was implemented, interactions between them could magnify both the costs and effects.

Table 3-5 compares the costs and effects of specific options. The most comprehensive—and most expensive—option would be to establish minimum benefit levels. This alternative would aid all current recipients in low-benefit states and would enable many low-income families not now eligible for AFDC to collect benefits. Extending eligibility to all low-income, two-parent families, regardless of employment status, would result in the greatest increase in recipients, as an estimated 450,000 families would join the program. That option would have the highest cost per affected family, because recipients would also be newly eligible for Medicaid benefits. Changing earnings deductions as specified here would affect about the same number of families, but would yield smaller benefit changes for affected families and would cause some families to lose benefits. The changes in deductions would have mixed effects on AFDC payments, with some provisions targeting benefits toward recipients with low earnings and others targeting benefits toward families with higher earnings. With the exception of completely eliminating asset limitations, the other options would generally affect smaller groups and have lower costs.

TABLE 3-5.—COMPARISON OF AFDC OPTIONS

Option	Affected families	Number of families affected (millions)		Average benefit change (dollars per month)		Fiscal year 1986 cost (billions) [1]			Change in the official poverty gap for families with children (billions)
		Current families	New families	Current families	New families	Federal	State	Total	
Minimum benefit:									
60 percent of poverty	Categorically eligible families in low-benefit states.	1.6	0.1	$89	$195	NA	NA	NA	−$1.6
65 percent of poverty	do	2.2	0.2	111	197	$1.3	$1.4	$2.7	−2.7
70 percent of poverty	do	2.3	0.3	160	208	NA	NA	NA	−3.9
Extend benefits to two-parent families:									
All states, current eligibility rules.	Two-parent families with unemployed earners in non-AFDC–UP states.	0	0.1	....	228	0.2	0.2	0.4	−0.1
All poor families, regardless of employment status.	Two-parent families not currently eligible due to employment status or living in non-AFDC–UP states.	0	0.4	....	397	1.3	0.2	1.5	−0.6
Liberalize asset limitations:	Low-income families with assets above current limits:								
$2,250		0	(2)	....	326	0.1–0.3	0.1–0.4	0.2–0.7	NA
Current food stamp limits		0	(2)	....	NA	(3)	(3)	(4)	NA
No limits		0	0.2–0.4	....	NA	0.4–0.8	0.3–0.7	0.7–1.5	NA

TABLE 3-5.—COMPARISON OF AFDC OPTIONS—Continued

Option	Affected families	Number of families affected (millions)		Average benefit change (dollars per month)		Fiscal year 1986 cost (billions) [1]			Change in the official poverty gap for families with children (billions)
		Current families	New families	Current families	New families	Federal	State	Total	
Require employable recipients to participate in work-related activities.	All recipient families with employable members not now working and not otherwise exempted from work.	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
Liberalize earnings deductions.	Primarily families with earnings..	[6] 0.2	0.2	[7] 69	116	0.2	0.3	0.5	−0.2
Reduce state matching rates for benefit increase.	Unknown since state behavior cannot be predicted.	[8] −3.7	NA	0–7	NA	0.1–0.2	(9)	0–0.2	NA

[1] Combined budgetary effects of changes in AFDC, food stamps, and Medicaid.
[2] Less than 100,000.
[3] Less than $200 million.
[4] Less than $300 million.
[5] Costs and effects of this option cannot be estimated because of lack of data.
[6] 155,000 current recipients would gain benefits, while 60,000 would get less.
[7] Average benefit increase for those current recipients whose benefits rise. Recipients whose benefits would fall would lose an average of $15 per month.
[8] Less than 3.7 million.
[9] Savings of up to $100 million.
NA = not available.

Source: Congressional Budget Office estimates.

Table 3-6 compares the costs and effects of various combinations of AFDC options. Interactions among the options would cause costs and effects to be larger than the sum of the individual ones. For example, if the minimum benefit option was enacted at the same time as the options to extend AFDC eligibility to all two-parent families and to change deductions, the higher benefits and increased deductions together would allow about 0.5 million more families to join the program. In 1986, AFDC costs would be roughly $1.1 billion—or about 22 percent—greater than the sum of the costs of the three options taken alone.

TABLE 3-6.—ESTIMATED TOTAL COSTS AND EFFECTS OF SELECTED COMBINATIONS OF AFDC OPTIONS

[Fiscal year 1986]

Combination of options	Increase in AFDC costs (billions)		Families affected (millions)	
	Sum of individual options	Combination of options	Sum of individual options	Combination of options
Minimum benefit equal to 65 percent of poverty and all two-parent families eligible	$4.5	$4.7	2.8	2.9
All of above plus increasing deductions	4.9	6.0	3.2	3.7
All of above plus liberalizing asset restrictions	5.3	6.4	3.3	3.8
All of above plus reducing States' matching needs for benefit increases	5.5	6.7	[1] 3.3	[1] 3.8

[1] Because of uncertainty about the effects of the proposal to reduce states' financing shares, it is not possible to estimate how many additional families would be made better off.

Source: Congressional Budget Office.

THE EARNED INCOME TAX CREDIT

The present earned income tax credit was introduced as a temporary provision with the Revenue Adjustment Act of 1975 and was made permanent in 1978. It is available only to low-income taxpayers. The credit is intended to provide a work incentive and to offset the burden of Social Security payroll taxes on these workers, including the working poor who have no federal individual income tax liability. This objective is achieved by making the credit refundable.[30] Perhaps the most important aspect of the current earned income tax credit is its restriction to families with children. This is partly to limit the cost of the credit, thus allowing a larger credit to eligible families with children. This restriction also targets benefits to those most likely to be on welfare.

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[30] Refundable tax credits are payable regardless of other tax liabilities. Thus, taxpayers with incomes too low to owe taxes can have the full value of refundable credits paid to them if they file tax returns. Nonrefundable credits, in contrast, can only be used to offset positive tax liabilities; they serve only to reduce the tax to zero, and the excess above the tax liabililty is lost.

Under current law, certain individuals or couples with children are allowed a refundable tax credit equal to 11 percent of the first $5,000 of their earnings, to a maximum credit of $550.[31] The credit is phased out evenly as earnings rise between $6,500 and $11,000.[32] The amount of the credit is independent of the number of children in the household, once the required qualifying child is present. In real terms, the maximum credit is considerably lower than it was in 1979, and because of rising nominal earnings, many fewer families now qualify for it than did 5 years ago. Table 3-7 shows the current distribution of EITC benefits.

TABLE 3-7. ESTIMATED DISTRIBUTION OF EARNED INCOME TAX CREDITS BY POVERTY STATUS AND NUMBER OF CHILDREN, CALENDAR YEAR 1983

Family characteristics	Number of EITC recipients (millions of families)	Average amount of EITC (per year)	Cost of EITC (billions)
All families	5.7	$260	$1.5
Income: [1]			
Less than 100 percent of poverty line	3.2	270	.9
Between 100 percent and 150 percent poverty line	1.4	260	.4
Greater than 150 percent of poverty line	1.2	250	.3
Number of children under 18:			
0 [2]	.7	250	.2
1	2.2	260	.6
2	1.6	260	.4
3	.8	260	.2
4 or more	.5	270	.1

[1] Income in relation to the Bureau of the Census poverty thresholds in 1983.

[2] These families contain qualifying children aged 18 and over.

Source: Congressional Budget Office simulations using 1983 incomes and 1986 tax law measured in 1983 dollars; based on the March 1984 Current Population Survey.

The EITC may have some unintended effects on the willingness of eligible families to work: while families with very low incomes may be induced to work more, those with somewhat higher incomes may choose to work less. For recipients with earnings below $5,000, the EITC effectively raises wage rates by 11 percent. Because this increases the amount of income forgone by not working, it may cause some recipients to work more hours. On the other hand, recipients with incomes above $6,500 may choose to work less, because additional earnings cause their EITC payments to fall. An eligible family with earnings of $8,000, for example, has its EITC payment reduced to $1.10 when its earnings rise by $9. Because it will net only $7.90 out of the $9, the family may elect not to work the extra hours. Moreover, other taxes magnify this work disincentive.[33]

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[31] To receive the credit, a married couple must file a joint return and qualify for a dependency exemption for a natural, adopted, or stepchild. Heads of household also qualify if their household includes a child or descendant of a child; the child or descendant must be either unmarried or a dependent by the dependency exemption definition. There is no limitation on the age of the child.

[32] The precise credit also depends on adjusted gross income [AGI]. If AGI is less than $6,500, the credit is 11 percent of earnings if earnings are less than $5,000; $550 if earnings are between $5,000 and $6,500; and $550 less 12 2/9 percent of earnings if earnings are between $6,500 and $11,000. If AGI is greater than $6,500 and less than $11,000, the credit is either that described in the preceding sentence, or determined by similar calculations replacing earnings with AGI, whichever is less. Finally, if AGI exceeds $11,000, no credit is available.

Use of the ETIC to aid working families with children promotes three goals. First, it helps poor children by providing greater resources to their families. Second, because married couples can qualify for the credit, there is no incentive for families to split up in order to be categorically eligible for the credit.[34] Finally, poor families with earnings below $5,000 may have an increased incentive to work, since the EITC raises their earnings by as much as 11 percent.[35] Because aid is given only to low-income families who work, the benefits are targeted on families trying to help themselves.

The EITC can be criticized on various grounds, however. First, as noted above, the credit may be a significant work disincentive for families with earnings above $6,500. Second, because it rises with earnings up to the current maximum of $550, the credit provides less assistance to the poorest families than to families with earnings near $5,000. Third, the credit is no greater for large families than for small ones; the presence of one child qualifies a family for the credit, and additional children do not affect its value. Fourth, the credit is given only to those who file tax returns.[36] Families whose incomes are too low to generate tax liability do not have to file returns, and therefore could well not benefit from the credit. Finally, unless families arrange with employers to reduce income tax withholding or, for those for whom little or nothing is withheld, employers are willing to "pay" the EITC throughout the year by increasing paychecks,[37] the credit comes as a single payment when annual tax returns are filed. For families that need resources to cover week-to-week expenses, such lump sum payments may be less helpful.

The EITC could be modified in four ways. First, it could be fixed in real value by indexing the turning points—the income levels at which the credit becomes constant, starts to decline, and disappears. A second approach would be less permanent, making one-time changes in the turning points so that more—or fewer—families would be eligible for the credit. Alternatively, the percentage of earnings allowed as a credit could be changed to increase the value of the credit to current recipients only.[38] Finally, either the turning points or the percentage could vary with the number of children in the tax filing units in order to give greater assistance to larger families. Examples of these possibilities are discussed in greater detail below.

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[33] For example, a married couple with two children and $8,000 in earnings is subject to an 11 percent income tax rate and a 7-percent payroll tax rate in addition to the 12.2-percent EITC reduction—a total tax rate of over 30 percent. If the family is also getting food stamps, it will face effectively another 24.6 percent tax as food stamps are cut when the family's cash income rises.

[34] Incentives to separate may exist for some families, however. See the discussion in this section.

[35] Again, however, this may not always be the case. See footnote 33 above.

[36] It is not known what percentage of eligible families receives the credit.

[37] Current law allows employers to include advance EITC payments—equal to the estimated value of the EITC—in workers' paychecks. In general, however, employers have not shown a great willingness to do so, and workers may have an understandable reluctance to insist on getting the payments through their employers. Only about 0.1 percent of the EITC recipients received advance EITC payments in the 1982 tax year.

[38] If this were done, however, either the phase-out rate would also have to be raised, or the income level at which the credit falls to zero would have to be greater.

Return the EITC to its 1979 real value and index

This option would increase the credit so that families with the same earnings—corrected for inflation—as they had in 1979 would get the same credit—again corrected for inflation—as they received in the earlier year. The earnings levels at which the credit becomes constant and turns down would be indexed to the CPI. In 1986, this would require that the EITC be set at 10 percent of the first $8,180 of earnings; at a constant $818 for earnings between $8,180 and $9,820; and gradually phased out for earnings (or AGI) between $9,820 and $16,360. For families with earnings below $5,500, the credit would decline—by as much as 9 percent—since the 1985 increase in the credit's percentage from 10 percent to 11 percent would be rescinded. Families with earnings between $5,500 and $11,000 would get larger credits than under current law, by as much as $674; the largest increase would go to families with the highest incomes. Eligibility for the credit would be extended to families with earnings between $11,000 and $16,360, with the amount of the credit falling from $670 to zero as earnings rise. The cost of the EITC for 1986—revenue reduction plus outlay increase—would be about $2.6 billion greater than under current law. Because this provision would be indexed and current law is not, the additional cost would rise over time.

This option would prevent the EITC losing value over time as a result of inflation, and would therefore provide a constant incentive for low-income families to hold jobs. It would also make the EITC consistent with other tax provisions in terms of indexing.[39] On the other hand, it would not give special aid to large families, since credits would not vary with the number of children. Further, it would significantly expand the population eligible for the EITC, improving work incentives for families with incomes between $5,000 and $8,180 but extending work disincentives to families with incomes up to $16,360.

Increase the percentage of earnings allowed as a credit

This option would increase the percentage of earnings allowed as a credit, above the current 11 percent, for those with incomes below $5,000. Families with incomes between $6,500 and $11,000—the range in which the EITC is phased out—would have their credits reduced at a faster rate than currently in order to hold constant the income ceiling on eligibility.

Families currently eligible for the EITC could be given greater assistance if the EITC was increased to a greater percentage of earnings. For families with earnings below $5,000, this would provide more incentive to work, since any increase in the EITC would raise their take-home wages net of taxes. In addition, it would focus additional aid on those families most willing to help themselves and make it more likely that they could become self-sufficient.

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[39] The personal exemption, the zero bracket amount, and the width of the rate brackets are now indexed.

On the other hand, for families with higher incomes—between $6,500 and $11,000—this option would increase work disincentives, since any addition to income would be partially offset by larger reductions in their EITC. Further, it would not address the problem of wage growth moving families across the turning points over time, thus reducing or eliminating the real value of the credit. Finally, such changes would not provide any additional assistance to larger families to help meet their greater needs.

For each percentage-point increase in the fraction of earnings allowed as a credit, the 3.2 million poor families getting the EITC would, on average, receive an additional $28—about a 9 percent increase—annually. No tax filing units not now eligible for the EITC would be made eligible because of this proposal, however. The additional budgetary cost of the credit for 1986 would be about $150 million for each percentage point the EITC was raised.

Raise the percentage of earnings allowed as a credit and increase the turning points

This option would raise the basic EITC from 11 percent to 16 percent of the first $5,000 in earnings; hold the credit constant at $800 for earnings between $5,000 and $11,000; and reduce the amount of the credit by 16 cents of each dollar of earnings above $11,000 until no credit was allowed when earnings equaled or exceeded $16,000.[40] Thus, both the percentage of earnings allowed as a credit and the income eligibility limits would be raised. This option would raise the value of the EITC by 45 percent for families with earnings below $6,500 and by as much as $800 for families with earnings between $6,500 and $11,000,[41] and make families with earnings between $11,000 and $16,000 eligible for the credit. It would raise the budgetary cost of the EITC for 1986 by about $3.4 billion.

This option would increase work incentives for families with earnings below $5,000 by raising net wages, and would reduce the work disincentive for families with incomes between $6,500 and $11,000. It would approximately restore the value of the EITC that has been lost as a result of inflation since 1979, and thus improve the prospects of self-sufficiency for working families. On the other hand, because the amount of the credit would fall as income grows, the EITC would become a disincentive to work for families with incomes between $11,000 and $16,000. Further, this would not permanently maintain the real value of the EITC.

Use poverty guidelines to define earnings levels that receive maximum credits

This option would set the credit at 10 percent of earnings up to the relevant poverty guideline for the tax filing unit, and phase out the credit at a 20 percent rate for earnings between the poverty guideline and 150 percent of the poverty guideline.[42] It would reduce the EITC for about 2.5 million families—by about $30, on average—in most cases affecting families with earnings below $5,500. About 3 million current recipients would get increased credits; over 40 percent of them would have incomes below poverty. An additional 3 million families would become eligible for the EITC and would get credits averaging $550; more than 60 percent of them would have incomes above poverty but below 1.5 times poverty, and three-fourths of them would have at least two children. The additional budgetary cost of this alternative for 1986 would be about $2.9 billion. Because the EITC would be indexed while it is not under current law, additional EITC costs would grow over time.

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[40] This option was introduced as part of H.R. 4920.

[41] The increase would range from $250 to $800 for these families, depending on their current credit. The largest increases would go to those with the largest earnings.

This option would end the erosion in the real value of the EITC, because poverty guidelines are indexed for inflation. Further, because the guidelines would increase with family size, larger families would receive more from the EITC than under current law. For these reasons, the option would increase work incentives for many poor. Like the other options, however, it would continue to benefit only those who file tax returns and would generally come in a lump sum once a year. Further, families with incomes between 1 and 1.5 times the poverty line might be discouraged from working more, since their EITC would fall by 20 cents for each additional dollar earned.

Comparison of EITC options

The options vary widely, both in terms of budgetary costs and in terms of how many families would be affected and who they would be (see Table 3-8). Raising the percentage of earnings allowed as a credit would assist only those people now eligible for the EITC. Depending on the size of the increase, the impact might or might not be significant, but costs would be kept down by not expanding eligibility. Raising the turning points would increase the number of eligible families and give greater benefits to more than half of all current recipients.[43] Restoring the EITC to its 1979 real value, for example, would give credits to families that would have been eligible then, but whose income growth in dollars has pushed them out of the program; nearly 4 million additional families would be able to claim the EITC, accounting for about half of the $2.6 billion additional cost of this option for 1986. The other options would combine these two approaches.

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[42] The poverty guidelines used here for 1986 are the 1985 Department of Health and Human Services poverty measure for program eligibility determinations, inflated by the projected change in prices between the third quarters of 1984 and 1985.

[43] If the credit's percentage were not changed, units with earnings below $5,000 would not get larger credits.

TABLE 3-8.—COMPARISON OF EARNED INCOME TAX CREDIT OPTIONS

Option[1]	Millions of filing units affected			Additional budgetary costs (billions)[2]
	With larger credit	With smaller credit	New recipients	
Restore real value	3.1	2.4	3.9	$2.6
Raise credit by 1 percentage point[3]	5.7	0	0	0.2
Raise percentage and turning points	5.7	0	3.7	3.4
Base turning points on poverty guidelines	3.0	2.5	3.0	2.9

[1] See text for complete descriptions of options.

[2] These cost estimates reflect Congressional Budget Office simulations based on 1986 tax law measured in 1983 dollars and 1983 income levels. The resulting cost estimates were inflated to reflect projected 1986 levels.

[3] The percentage could be increased by any amount; this example assumes one percentage point. Larger changes would raise costs proportionately more.

Source: Congressional Budget Office simulations based on the March 1984 Current Population Survey.

OTHER ALTERNATIVES

A commonly proposed way of providing cash transfers to families with children would be through a national children's allowance, paid to parents of all children. The United States is the only industrialized country that does not provide some form of children's allowance; more than 60 countries offer such payments. Benefits in those countries are generally paid monthly through check or bank deposit, although Sweden and the United Kingdom use vouchers or cash at social security offices.

In principle, a children's allowance could be set at any level; could vary by age and number of children; could be operated as a direct spending program or through the federal individual income tax system; and might or might not be subject to income taxation. In addition, part of the cost of allowances paid to low-income families could be offset by reductions in other assistance payments such as AFDC and food stamps; the larger such reductions were, however, the less would be the benefit of a children's allowance to low-income families receiving other aid.

Funds to pay for a children's allowance could come from a variety of sources. The assertion that society as a whole is responsible for its children and gains from their contributions as adults would call for the use of general revenues, which could be increased by expanding the tax base or by raising tax rates. Under this approach, all taxpayers would share the costs and the net effect would generally be to shift resources from those with higher incomes and fewer children to lower-income and larger families. An alternative would be an earmarked tax. France has a children's allowance that is funded by a tax on employers, for example.[44] Such a tax could reduce the number of jobs, however, depending on how it was structured.

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[44] This is, in part, a result of the history of the children's allowance in France. Allowances originated as employer-provided wage supplements for workers with large families. When the French government assumed responsibility for paying the allowances, it was natural to turn to employers for funding.

One specific proposal would fund a children's allowance by eliminating the personal exemption for dependent children in the individual income tax system.[45] In 1984, this would have financed a taxable payment of about $220 for each of the nation's 62 million children, with no net effect on the federal budget. Because the value of exemptions is a function of the tax unit's marginal tax rate, they are generally worth more to high-income units than to low-income units. Replacing the exemptions for dependent children with children's allowances would be desirable, in the view of some observers, because it would shift the means by which the government currently assists families with children from an approach that helps high-income families more than low-income families to one in which benefits would not depend on income.

Critics of this approach contend that it would shift the burden of financing the children's allowance disproportionately to large, high-income families for whom average tax rates would increase more than for other groups. In contrast, taxpayers without children would experience no extra taxes as a result of this change. Critics further argue that personal exemptions are an intrinsic part of the tax structure that excludes from taxation a basic amount of income for all tax units. In addition, substituting credits for exemptions would cause all families with children to experience the same increase in taxes or the same increase in income; this would alter the traditional premise in the income tax that, at most income levels, larger families have a lesser ability to pay extra taxes than do smaller families.

A children's allowance could be administered as a direct spending program or could be incorporated into the personal income tax as a refundable credit. Because less additional administrative machinery would be involved, providing the allowance through the tax system might be less costly. Withholding rates would need to be adjusted to reflect the allowances, as well as any corresponding changes in exemptions, other deductions, and tax rates. Relying on withholding, however, might fail to meet the recurring needs of poor families. In many circumstances families without earnings would not receive payments on a regular basis, and those that do not file tax returns might fail to collect their children's allowances at all.

Proponents assert that providing direct assistance to families with children through an allowance would recognize society's responsibility to share in the costs of rearing children. Society has such a responsibility, they claim, because society shares in the gains when children grow up to become productive workers and contributing citizens. For low-income families, monthly payments could be a significant supplement to income and thus could ease the financial burden of rearing children. In addition, because additional resources would be provided without regard to family composition, a children's allowance might reduce incentives for families to split up in order to qualify for current assistance programs for which married-couple families are often not eligible.

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[45] Taxpayers in 1985 can deduct $1,040 from income for each dependent child in calculating their taxes. The amount of the exemption—like the zero bracket amount and the width of the tax rate brackets—has been indexed for inflation, beginning in 1985.

Children's allowances, however, have been criticized on several grounds. First, they would establish the principle that the government should assist directly in paying some of the costs of rearing children and would open the door for a more direct government role.[46] Second, an allowance could provide an incentive for families to have more children, although the size of the effect probably would be small. Studies of children's allowances in other countries have not found an impact on birth rates, but it is difficult to argue that there would be no effect all.[47] Finally, paying children's allowances would require either creating an entirely new administrative apparatus with significant costs, or further complicating, perhaps substantially, the administration of the tax code. Unless monthly allowances were large—and thus expensive—paying them might not be worth the administrative costs or complications to the tax system.

The specific option considered here would provide $25 per month (in 1986) for each dependent child under age 18. Payments would not be conditioned on family income, would be taxable as regular income, and would be indexed for inflation. Income from the allowance would not be counted in the benefit calculations for AFDC, food stamps, or other income-conditioned programs.[48] If such an allowance, equivalent in real value, had been in place in 1983, the cost to the federal government, net of taxes but excluding administrative costs, would have been about $13.6 billion (see Table 3-9).[49] Nearly 33 million families would have received an average payment during that year of about $500; after taxes, the average gain would have been roughly $420 per family. About one-quarter of the net expenditure would have gone to families below the poverty line, and another 13 percent to families with incomes between 100 percent and 150 percent of the poverty line.

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[46] The tax code currently recognizes such costs, but helps with them only to the extent of not requiring payment of taxes on a portion of the costs. Direct payments would be a different matter.

[47] See, for example, Joseph Piccione, "Help for Families on the Front Lines: The Theory and Practice of Family Allowances" (Washington, D.C.: The Free Congress Research and Education Foundation, 1983), p. 11.

[48] If the allowance were counted as income in AFDC benefit calculations, most AFDC families would be no better off with the allowance than without, since AFDC benefits would be reduced by up to the amount of the allowance. This reduction in benefits would decrease AFDC costs incurred by both the federal and state governments; as such, it would represent a transfer of resources from the government (that would pick up the full cost of the child allowance) to state governments (that would not have to pay their share of AFDC costs). Federal costs of the allowance would, however, be less than if allowance payments were ignored in AFDC benefit calculations.

Similarly families getting food stamps would have their food stamp allotments reduced by up to 30 percent of the amount of the children's allowance. If the allowance were included as countable income, such families, would gain, but by less than the full amount of the allowance. Again, this would reduce the net cost to the government of paying the allowances.

[49] The $25 monthly allowance in 1986 would have been equal to a $22 allowance in 1983.

If the allowances were not counted as taxable income, the net cost to the government would have been about $16.4 billion in 1983. Taxation of payments would thus recoup about 17 percent of payments; about 90 percent of taxes would come from families with incomes greater than 150 percent of the poverty line.

TABLE 3-9.—ESTIMATED DISTRIBUTION AND COSTS OF A TAXABLE CHILDREN'S ALLOWANCE OF $22 PER MONTH, BY POVERTY STATUS AND NUMBER OF CHILDREN, CALENDAR YEAR 1983

Family type	Number of families receiving payments (millions)	Average annual gain, net of taxes, per recipient family	Total costs, net of taxes (billions)
All families	32.6	$420	$13.6
By income category:			
Less than 100 percent of poverty line	5.9	590	3.5
Between 100 percent and 150 percent of poverty line	3.5	500	1.8
Greater than 150 percent of poverty line	23.1	360	8.3
By number of children:			
1	13.4	220	2.9
2	12.2	430	5.3
3	4.7	660	3.1
4 or more	2.3	1,030	2.3

Source: Congressional Budget Office simulations based on the March 1984 Current Population Survey.

CHAPTER IV. OPTIONS FOR IN-KIND TRANSFER PROGRAMS

In-kind transfers are provided for poor families with children in four major areas. Food stamps enable low-income households to purchase food. The National School Lunch and School Breakfast programs offer free and reduced-price meals to children in school. Medicaid finances health care for poor families. The Section 8, public housing, and other programs provide subsidies to low-income families to help them pay their rent or the cost of owning a home. The following options generally involve modifying these existing programs.

FOOD STAMPS

Food stamps are the most universally available form of non-cash federal transfer. With few categorical exceptions,[1] any household that meets income and asset limitations, as well as work requirements, qualifies for benefits.[2] The benefit level is based on the cost of the Thrifty Food Plan (TFP), an inexpensive but nutritionally adequate diet, currently valued at $264 per month for a family of four.[3] This basic allotment is reduced by 30 percent of countable income—that is, income net of the standard deduction and net of specific deductions for work expenses and the costs of child care, housing, and—for households with elderly members—medical care.

Two specific options are considered here. The first would give more food stamps to all families with children by increasing maximum allotments. The second would be targeted on families that work by raising the deductions for child care and excess shelter costs.

INCREASE MAXIMUM FOOD STAMP ALLOTMENTS

Under this option, the maximum food stamp allotment for families with children would be set at 110 percent of the cost of the

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[1] Most strikers and college students are not eligible for food stamps.

[2] There are two income tests: total income must be less than 130 percent of federal poverty guidelines, and income net of deductions must be below 100 percent of those guidelines.

Allowable deductions include an inflation-indexed standard deduction, set at $95 per month through September 1985; 18 percent of any earned income as a work expense deduction; work- or training-related child care expenses; and shelter expenses in excess of 50 percent of remaining countable income. Total child care and excess shelter cost deductions cannot exceed an inflation-indexed limit, currently $134 per month. If the household has an elderly or disabled member, only child care expenses are subject to the $134 limit; excess shelter costs are deductible in full. In addition, all medical costs of elderly or disabled members that exceed $35 per month can be deducted.

Liquid assets cannot exceed $1,500 except for families with two or more members, at least one of whom is elderly; the asset limit is $3,000 for the latter group.

[3] The TFP is not the least expensive diet that satisfies minimum daily nutritional requirements, but rather a diet that meets nutritional needs, allows for variety, and includes the basic kinds of foods that Americans eat. At the same time, it is unlikely that many families have food budgets as small as the TFP cost.

TFP. This would increase the amount of assistance going to the nearly 60 percent of all poor families with children that receive food stamps, and would thus reach more poor children than are aided through any other program. It would also address the complaint that, while the TFP is nutritionally adequate, the way in which it is valued yields a dollar amount below its true cost. Poor families may be unable to afford an adequate diet, even with the full TFP value, for several reasons. Because inflation indexation of the TFP lags price changes by 3 to 15 months, and because food stamp benefit calculations are truncated to whole dollar amounts, the TFP value used to determine food stamp allotments has averaged about 6 percent less than the actual TFP cost.[4] Moreover, food prices may be higher in the areas where some poor families live. While the full amount of the shortfall cannot be determined with accuracy, providing benefits 10 percent above the TFP could be a rough correction. Since food stamps can only be used to purchase food, there should be relatively little concern that the additional assistance might be misused, particularly given recent efforts to combat fraud and abuse.

Because food stamps can only be used to buy food, critics argue that they—like all other forms of in-kind assistance—do not allow recipients their right to decide what to consume. It is conceivable that poor families might receive more satisfaction per dollar of federal expenditure if they were given cash and allowed to spend it as they felt best met their needs. Only the poorest households would prefer cash, however, since others spend more on food than they receive in stamps. Critics of increasing food stamp allotments also maintain that current benefit levels are more than enough to fulfill nutritional needs. Additional food aid should not be necessary, they hold, and might actually discourage budget-conscious shopping. They argue further that because school and child care feeding programs provide free meals to many poor children much of the time, families with children already get food assistance in excess of the TFP. If so, and if the TFP is adequate, such families should not need additional food aid.

For the 4.2 million households with children projected to receive food stamps in 1986, setting maximum food stamp benefits at 110 percent of the TFP would raise allotments by an average of 15 percent. Average benefits would increase by about $25 per month to roughly $198. Because eligibility is determined primarily by gross income limits, the benefit rise would have little effect on the number of eligible families; it might, however, lead to increased participation. Overall, costs would rise by about $1.2 billion in fiscal year 1986.[5] There would be no impact on the official poverty gap or rate since food stamps are not counted as income in their determination. If in-kind benefits were included as income at their cash-equivalent value, the increase in food stamp benefits would reduce the poverty gap for families with children by about $0.9 billion, or about 3 percent.

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[4] Over the 1978-1984 period, indexation methods reduced the value of the TFP to an average of 4.9 percent below the actual TFP cost, while rounding and truncation of amounts in benefits calculations resulted in a 1 percent loss.

[5] If the option were expanded to cover all food stamp recipients rather than just those families with children, the cost would be about $1.6 billion.

CHANGE LIMITS ON CHILD CARE AND EXCESS SHELTER COST DEDUCTIONS

This option would replace the limit on deductions for the combination of child care and excess shelter costs in the Food Stamp program—currently $134 per month—with individual limits on each kind of expense. The new limits would be $160 per month for the care of children, and $150 per month for excess shelter costs.[6]

Almost 90 percent of households affected by the existing limit on deductions contain families with children; in 1981, more than one-fourth of all food stamp households with children were affected.[7] Increasing the limits would recognize the high shelter and child care costs incurred by these families and therefore their greater need for assistance. The change would also encourage poor families to work by effectively financing part of their day care costs. Finally, relaxing the constraints on shelter cost deductions would mean that families eligible for housing assistance but not receiving it because of funding limits would be helped somewhat more in the Food Stamp program than those getting housing aid.

Some arguments can be raised against the option, however. First, some critics argue that the earned income deduction—18 percent of earnings—already reflects the costs of working and that allowing for the deduction of more child care costs might be excessive. Second, while housing market conditions may force many families to spend large fractions of their income on rent, some families may incur high housing costs by choice. Relaxing limits on excess shelter costs might reward the latter families by increasing their food stamp allotments. While this would be restricted to some degree by the gross income requirements, it could result in additional food aid for this group.

About 1.1 million households with children—and 1.3 million households overall—would receive increases in their food stamp allotments, averaging about $49 annually. Virtually no additional households would become eligible for the program. The total cost of the change would be roughly $62 million in 1986. Because in-kind income is excluded from official poverty measures, there would be no effect on poverty rates or poverty gaps. Even if poverty were assessed using alternative measures that did count in-kind income, there would still be virtually no effect because the change in food stamp benefits would be small.

SCHOOL NUTRITION PROGRAMS

The National School Lunch Program (NSLP) and the School Breakfast Program (SBP) provide cash assistance to participating public and private schools that serve meals to children. Each program has a three-tiered reimbursement system that allows children from households with incomes at or below 130 percent of the poverty line to receive free meals, permits children with incomes between 130 and 185 percent of poverty to receive meals at a reduced price, and provides a small subsidy for the meals of children with incomes above 185 percent of poverty.[8]

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[6] This child care limit would be consistent with that for AFDC.

[7] At the same time, only 2.6 percent of food stamp households with children used the child care deduction in August 1982; for those households, the average amount of the deduction was $86.

Evaluations of the NSLP and the SBP have found that both effectively increase the amount of food consumed by participants, as the subsidized meals supplement the family's normal food consumption rather than substitute for it.[9] Furthermore, a number of studies have found that the programs have positive effects on the nutritional intake of the participants.[10] These programs differ substantially, however, in the number of children each serves, the number of schools participating, and the socioeconomic composition of the children aided.

The NSLP provides subsidized school lunches to children in most schools. During 1983, the average daily participation was 23 million students, at a total program cost of $3.2 billion. In that year, approximately 92 percent of all elementary and secondary school students were in schools that participated in the NSLP.[11] Roughly half of the meals subsidized by the NSLP go to children from low- and moderate-income families; in 1983, 44.6 percent of the children receiving NSLP lunches received free lunches, 6.6 percent received reduced-price lunches, and the remaining 48.8 percent paid for their meals.[12]

The SBP serves far fewer students than does the NSLP. In 1983, the program had an average daily participation of 3.4 million students, with total program costs of $350 million. During that year, the program was estimated to be available in about a third of all schools, and to serve about 23 percent of the participating schools' enrollment.[13] The SBP also differs from the NSLP in that most of the schools that offer the program are in low-income areas, and the children who participate in the program are predominantly from low- and moderate-income families. In fiscal year 1983, approximately 86 percent of the SBP participants received free breakfasts, while an additional 4 percent paid a reduced price for their meals.[14]

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[8] For example, the NSLP schools currently receive federal reimbursement of $1.26, 86 cents, and 12 cents, respectively, for each lunch served to children from these three income categories. An additional 12 cents worth of commodity assistance is mandated for all meals, regardless of the family income of the recipient. The corresponding levels of federal reimbursement in the SBP are 66 cents, 36 cents, and 10 cents. There is no commodity assistance in the SBP.

In the 1984-1985 school year, 130 percent of the poverty line is equivalent to an annual income of $13,260 for a family of four, while 185 percent is equal to $18,870 for a family of the same size.

[9] Wellisch, Hanes, Jordan, Maurer, and Vermeersch, "The National Evaluation of School Nutrition Programs: Final Report," (Santa Monica, CA: System Development Corporation, April 1983), vol. 1, pp. 4-5.

[10] Ibid, pp. 5-8; and Congressional Budget Office, "Feeding Children: Federal Child Nutrition Policies in the 1980s" (Washington, D.C.: U.S. Government Printing Office, May 1980), pp. 58-74.

[11] General Accounting Office, "Participation in the National School Lunch Program" (March 30, 1984), p. 22.

In 1981, the most recent year for which these data are available, approximately 95 percent of all public schools and 29 percent of all private schools participated. Senate Committee on Agriculture, Nutrition, and Forestry, "Child Nutrition Programs: Description, History, Issues, and Options" (January 1983), p. 3

[12] Department of Agriculture, Food and Nutrition Service, unpublished data.

[13] Report of the President's Task Force on Food Assistance (January 1984) p. 135.

[14] Ibid, p. 136.

TRENDS IN PARTICIPATION

The poverty rate in the school-age population rose sharply between 1980 and 1983. This rise resulted in an increase of approximately 18 percent (1.9 million) in the number of children eligible for free meals in the two school nutrition programs.[15] Notwithstanding this, the number of children served free meals in the NSLP increased by only 1.3 percent, or 131,000, and the number of children served free meals in the SBP increased by 3.8 percent, or 100,000.[16]

It is not clear why the participation rates have failed to keep pace with the increasing number of poor children. Several factors have been cited as possible causes. First, because of federal policy changes and school closures, fewer schools participated in the nutrition programs after 1980. Consequently, the proportion of all students with access to the programs fell slightly between 1980 and 1983.[17] Second, student participation has decreased a small amount among those students who attend schools that participate in the programs. Little is known, however, about the socioeconomic composition of the students who no longer participate. Third, increased efforts to verify income in determining eligibility resulted in changes being made in the eligibility forms, requiring more detailed information. It is not known what, if any, effect this latter factor had on participation. Some people suggest that it has reduced the number of children who obtain benefits without actually being eligible, while others believe that it has created a "barrier" effect—preventing eligible families from participating because they find these forms intimidating or difficult. Finally, a series of changes in the income eligibility guidelines between 1980 and 1981 resulted in a net lowering of the income standard for some family sizes in the free category, although it is not known how many families were affected.

It is not clear that the discrepancy between the large increase in the number of poor children eligible for free meals and the small increase in the number actually served can be explained satisfactorily by any of the above factors.[18] Additional investigation into the causes of the current participation trends among the poor would help to identify policy options that would be most effective in ensuring full access to the school nutrition programs.

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[15] During this same period, school enrollment declined by 4.5 percent. General Accounting Office, "Participation in the National School Lunch Program" (1984), p. 22.

The 18 percent increase was in the number of children between the ages of 5 and 17 years whose household income fell below the income cutoff for free meals. It does not include any measure of the number of these children who are in schools that offer the program. CBO calculations based on March 1984 Current Population Survey.

[16] NSLP data from Department of Agriculture, Food and Nutrition Service; SBP data from "Report of the President's Task Force on Food Assistance," p. 136.

The student participation data are extrapolated (by the Food and Nutrition Service) from the number of meals served in each category. It is difficult, therefore, to know whether a change in the estimated participation rate reflects only a change in the number of students participating, or whether it includes some other factor—for example, a change in the frequency of participation, such as some students eating fewer meals in some weeks.

[17] The 1980 and 1981 policy changes decreased reimbursement rates; decreased the value of commodities; quadrupled the price for the reduced-price lunch category; increased efforts to verify income in determining eligibility; changed the income eligibility requirement for the free lunch category; and lowered the upper bound for the reduced-price category from 195 to 185 percent of poverty.

Between fiscal years 1981 and 1983, approximately 2,500 schools (out of approximately 92,900) dropped out of the NSLP. This, according to one analysis, reflected a number of factors, including: the 1981 provision excluding all private schools with average yearly tuitions of $1,500 or more (accounting for an estimated 500 of the 2,500 schools dropping out), the changes in income eligibility requirements and federal reimbursement rates; and changes in the numbers of schools open nationwide. As a result, an estimated 94.8 percent of all students were in NSLP schools in 1980, compared with 91.5 percent in 1983. General Accounting Office, "Participation in the National School Lunch Program," pp. 3, 9, and 21-22.

SCHOOL NUTRITION PROGRAMS

The options discussed below address ways in which the school nutrition programs could serve larger numbers of poor children—either by increasing the number of children participating in those schools that now offer the programs, or by increasing the number of schools participating in the programs. Three approaches are considered:

—Make the programs mandatory for all schools receiving federal funds;

—Increase reimbursement rates for the School Breakfast Program; and

—Raise the income eligibility guidelines.

Make the NSLP and/or the SBP mandatory for all schools

The federal government could require all public schools to participate in one or both of the programs on the grounds that all states receive federal funds for elementary and secondary education.[19] Alternatively, such participation could be made mandatory for elementary schools alone, since the rates of participation are higher in elementary schools than in secondary schools. This approach would provide most public school children access to the school nutrition programs. It would do so at an additional cost in 1986 of roughly $200 million for the NSLP and $370 million for the SBP, assuming approximately 1.7 million and 3.0 million additional participants, respectively. The potential cost of this option, and its possible impact on poor children, are difficult to assess because of a lack of data on the socioeconomic characteristics of schools or of children who do not participate in the programs.

Proponents of this option believe that all children would benefit from having access to the school nutrition programs. They point to evidence that school lunches are more nutritious than lunches provided from other sources, and that the SPB ensures that the children eat breakfast.[20] They also argue that most nonparticipating schools do not have alternative meal programs (for example, according to USDA data, approximately 76 percent of the non-NSLP schools had no lunch services available to their students in 1980).[21] Others argue for making only the SBP mandatory, as a means of effectively targeting additional aid on low-income children.

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[18] Other possible explanations are that some low-income families are unaware of their eligibility for the program, are unwilling to accept the free meals, or perhaps are participating less often. No evidence is available at this time to support any of these explanations.

[19] Most schools can choose whether or not they wish to participate in the school nutrition programs. The only exceptions are those private schools whose average yearly tuition is greater than $1,500, which were declared ineligible in 1981.

[20] Wellisch and others, "National Evaluation of School Nutrition Programs," pp. 10–11.

[21] Department of Agriculture, Food and Nutrition Service, "Annual Report of Meal Service in Schools" (1980).

Opponents of a mandatory NSLP maintain that such action is unnecessary, on the grounds that over 90 percent of all school children are in participating schools and that many of the nonparticipating schools are thought to be (as of 1980) relatively affluent. They also argue that the nonparticipating schools could find participation more costly than do schools with larger numbers of poor students.[22]

Some opponents of a mandatory SBP believe that providing breakfast is not a school responsibility. Others contend that, under the current reimbursement structure, it would put unnecessary financial burdens on the schools because costs appear to exceed revenues in many programs.[23] Still other critics focus on the operational difficulties of implementing a school breakfast program, such as staffing and the rescheduling of buses and classes.

Increase the reimbursement rates for the school breakfast program

The federal government could foster school participation in the SBP by increasing the rate at which schools are reimbursed for breakfasts they serve. Reimbursement rates could be raised by any amount, and the cost of the option would vary accordingly. If, for example, reimbursement rates were increased by six cents per breakfast, federal outlays would increase by roughly $42 million in 1986.[24]

Proponents of this approach argue that the SBP is effectively targeted to low-income students, but that relatively few schools participate. They believe that schools—especially those in low- and moderate-income areas—find it financially difficult to participate in the SBP because reimbursements are usually not sufficient to cover costs.[25] These schools would be more likely to participate if the reimbursement rates were increased, thereby providing many more low-income children access to subsidized breakfasts.

Opponents maintain that current reimbursement rates are adequate, and that the additional funding for cases of "severe need" allows schools that face financial difficulties to meet their costs.[26] They suggest that low participation levels result from other factors—for example, the belief of some school administrators that breakfasts are the responsibility of the parents, and difficulties such as the scheduling of buses and additional food service staff hours.

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[22] Affluent schools might find it more costly to participate in the NSLP, as the subsidies for the paying category are relatively small. On the other hand, affluent school districts are probably better able to afford such costs.

[23] General Accounting Office, "Major Factors Inhibit Expansion of the School Breakfast Program," June 16, 1980, p. iv.

[24] Under this version of the option, reimbursements would rise by six cents from current levels in each category. For example, rates in Fiscal Year 1986 would increase from 68 cents to 74 cents for the free category.

[25] General Accounting Office, "Major Factors Inhibit Expansion of the School Breakfast Program."

[26] Increased proportions (from 44 percent in 1980 to 50.5 percent in 1983) of SBP schools qualified as "severe need" schools (Report of the President's Task Force on Food Assistance, p. 136). These schools are defined as those having a large proportion (more than 40 percent) of lunches served in the free or reduced price categories, or whose preparation costs are greater than the federal reimbursement rates. This categorization allows schools to receive roughly 13.5 cents more in reimbursements for the free and reduced-price categories. Senate Committee on Agriculture, Nutrition and Forestry, "Child Nutrition Programs: Description, History, Issues, and Options" (January 1983), p. 25-26.

Raise the income-eligibility guidelines to encompass more students

Another approach would be to raise the income-eligibility guidelines in the school nutrition programs to provide more low- and moderate-income children access to subsidized meals, and to broaden the potential base of participants for schools. For example, a limited expansion could be made by increasing the income guideline from 185 percent to 195 percent for the upper bound of the reduced-price category. This would cost an estimated $22 million in 1986 and would serve approximately 120,000 additional students in the reduced-price category, roughly 31,000 of whom would have been in the paying category prior to the change.[27] There are many possible versions of this option: the lower income guidelines could be raised (for example, to 150 percent of poverty) to allow more children to receive free meals, or both the lower and upper guidelines could be increased (for example, to 150 percent and 200 percent of poverty, respectively). The cost of this approach, and the number of children affected by it, would depend on the size of the change in the income-eligibility guidelines. In general, costs would be higher for expansions in the free meal category than for expansions in the reduced-price category, as both participation and reimbursement levels are much higher in the free category. More low-income children would be reached by expanding the lower category, however.

This general approach would allow schools to receive subsidies for more students and would, depending on the size of the change in the guidelines, give them greater incentive to participate. It would therefore be likely to increase the number of low-income children who had access to the program, and would allow the federal government to target additional benefits to specific groups. On the other hand, it would also provide federal subsidies to children whom many consider to be less needy.

HEALTH CARE

All children need a variety of routine preventive health services (for example, physical and dental examinations) and acute care for childhood diseases and accidents. In addition, a small proportion of children require substantial physician and hospital services for major illnesses, particularly during the first year of life.

A variety of private and public arrangements help poor families with children satisfy these needs. Children of some working poor are covered under the employment-related health insurance plans of their parents. Most part-time employees and many low-wage employees, however, are not covered under employer health insurance. Workers who change jobs or incur a spell of unemployment often go uncovered or lack coverage for preexisting medical conditions. Moreover, private insurance plans generally do not cover the routine preventive services needed by all children. Historically, some additional care has been provided for the poor by hospitals and physicians as charity or "bad debt" care. Though its magnitude has always been uncertain, there is some concern that willingness to provide such free services is sharply declining.

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[27] These costs would be primarily incurred in the NSLP, as very few students participate in the reduced-price and paying categories in the SBP. Some additional costs would also be incurred in the Child Care Food Program, which uses the same eligibility guidelines as the School Lunch and Breakfast programs. The Supplemental Feeding Program for Women, Infants and Children (WIC) uses the same upper income-eligibility guideline, but no additional costs would be incurred as it is an appropriated program.

Children in poor families have two principal sources of public financing for their health care: Medicaid and federally supported primary care centers. Under Medicaid, the federal government shares with states the costs of financing a wide range of health care benefits for all children in families receiving AFDC, and, at state option, other children in families with income above AFDC levels who are deemed medically needy. In general, Medicaid covers a much broader range of services than private insurance with, at most, nominal amounts of cost sharing by patients. The states are required to provide preventive screenings and follow-up treatment to eligible children through Medicaid's early and periodic screening, diagnosis, and treatment benefit.

Over 9 million children—both poor and nonpoor—received Medicaid benefits in 1983, at a total cost of about $3.8 billion, about 55 percent of which was spent by the federal government, with the balance financed by the states. Only 45 percent of poor children were covered by Medicaid in 1982, however, because of restrictions on the categories of families that are eligible, as well as the fact that state AFDC payment standards are set well below poverty income levels. The Deficit Reduction Act of 1984 (P.L. 98-369) required states to phase in Medicaid eligibility for all children under five years of age who live in families with incomes below state AFDC eligibility standards.

Federally supported primary care centers—including community health centers and migrant health centers—serve poor families residing in medically underserved areas. Payment for care is based on family income, with families at or below the federal poverty level being eligible for free care. While such centers do not provide services for major illness requiring hospitalization—and, therefore, are not a complete substitute for Medicaid or adequate private insurance coverage—they serve many low-income families who are ineligible for Medicaid by virtue of family structure or income level. About 5.5 million people will be served by 739 primary care centers at a federal cost of $400 million in 1985. (Federal subsidies, which provide just under half the centers' revenues, are supplemented by revenues from nonpoor patients, private insurance, Medicaid, and state and local government subsidies.) Among those served are perhaps 300,000 to 400,000 poor children who are ineligible for Medicaid but receive free ambulatory care through such centers.

Strategies for providing children in poverty with greater access to health care services include expanding Medicaid eligibility, increasing the number of federally subsidized primary care centers, and providing school-based health insurance coverage.

EXPAND MEDICAID ELIGIBILITY TO INCLUDE ALL CHILDREN AND PREGNANT WOMEN IN FAMILIES WITH INCOMES UNDER 65 PERCENT OF POVERTY

To increase access to health care for low-income children, the Congress could require all states to extend Medicaid coverage to all children and pregnant women in families with incomes below 65 percent of the poverty level. This option could provide medical care for 700,000 children and 100,000 pregnant women. A minimum national eligibility standard would reduce interstate differences in coverage of children and pregnant women with similar family incomes. It could be implemented through existing state Medicaid agencies, though participation in the program by this newly eligible population would probably be low because they are not a part of the welfare system.

Expanding Medicaid eligibility to include all children in families with incomes under 65 percent of the federal poverty level would raise annual federal outlays for the Medicaid program by about $400 million. Also, those states with AFDC standards under the proposed eligibility level would be required to raise their annual outlays by a total of about $300 million. The added state Medicaid costs could have adverse consequences for other beneficiaries of state services, if states chose to meet their share of increased costs by reducing spending elsewhere in Medicaid or in other areas.

INCREASE THE NUMBER OF FEDERALLY SUBSIDIZED PRIMARY CARE CENTERS

The Congress could enhance access to primary health care services for poor and near-poor families by authorizing federal subsidies for new community or migrant health centers. The additional services could lead to improved levels of health among those served. While the incremental federal spending would not wholly accrue to children in poor families, about 60 percent of current program beneficiaries are from families with incomes below the poverty level and another 25 percent have family incomes under twice the poverty level. Because federally subsidized primary health care centers seek Medicaid and private insurance reimbursements from their insured patients and direct payments from their uninsured higher-income patients, the federal subsidies to centers are largely on account of patients below or near the poverty line. Unlike entitlement programs such as Medicaid, federal primary care subsidies are subject to direct Congressional control through annual appropriations. Under current law, the annual federal subsidy is about $600,000 per center; an expansion of one center per state would cost $30 million.

This option would have some drawbacks, however. Under the current approach to federally subsidized primary care delivery, only projects in medically underserved areas are eligible for support. If the Congress authorized funds for new centers under these guidelines, the benefits would be unevenly distributed, accruing only to families in the service areas of the new centers. Even a comprehensive package of primary care services would fall short of fully insuring children for major illness.

PROVIDE SCHOOL-BASED HEALTH INSURANCE COVERAGE

The Congress could expand health insurance coverage for low-income children by subsidizing private insurance purchased through school districts.[28] Compared with the options discussed above, this one might help more poor children by using public schools to identify those children in need. Grants could be provided to each district to purchase group health insurance for low-income children who do not have coverage through a parent's policy or under Medicaid. States could be required to match federal grants on the basis of their federal Medicaid assistance percentage.

The amount of the grant could be based on the per-capita cost of providing health care through a health maintenance organization (HMO), with an allowance for the increased administration costs that school districts might incur. In the option discussed here, for children in families with incomes under the federal poverty level, the full federal matching rate would apply. Half this amount would be provided for children with family incomes between poverty and two times the poverty level. School districts could request local health care providers—including insurers, HMOs, and hospitals—to bid for contracts to provide health care to their uninsured school children. (Some school districts already involve themselves in health care coverage by requiring certain health care coverage for participation in competitive sports.) Implementing a school-based health insurance program for uninsured children in this way would increase federal outlays by $1.2 billion in fiscal year 1986.

Most school-age children could be reached through this option, thus increasing participation by the target population. It would make health insurance available to an estimated 3.2 million uncovered children under the poverty threshold and as many as 2.8 million uncovered children between poverty and two times the poverty level. Under such a program, schools could become the initial contact with the medical care system for children, who could then be referred to the health care provider to receive any necessary care. This option would probably increase the likelihood that medical problems identified by school health officials would receive treatment.

Some people object that schools already have more responsibilities, in addition to education, than they can effectively meet. Staffs in most districts are not qualified to carry out the insurance-related duties that would be required. Even though the grants could defray additional administrative costs, the option could be difficult to implement in districts where there are few eligible children or few health care providers, and children in private schools would be difficult to reach.

HOUSING ASSISTANCE

The Department of Housing and Urban Development (HUD) and the Farmers Home Administration (FmHA) provide housing subsidies to low-income families, intended to upgrade their housing quality and to reduce their housing costs.[29] Most programs aid renters, typically reducing tenants' rent payments to a fixed percentage—currently 30 percent—of their incomes, after certain deductions. Rental assistance is provided through two basic approaches: subsidies tied to projects specifically constructed for low-income households, and subsidies that permit renters to choose standard housing units in the existing private housing stock. Outlays for project-based subsidies, mostly for the public housing and the Section 8 new construction and substantial rehabilitation programs, totaled $6.8 billion in 1984. Outlays for household-based subsidies, through the Section 8 existing-housing program, amounted to $2.8 billion in 1984.

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[28] The concept of a school-based health insurance program for low-income children was suggested by Allen Feezor of the Blue Cross-Blue Shield Association.

Housing assistance programs are not entitlement programs, nor are they specifically aimed at families with children. Under current law, a household is generally eligible for rental assistance if its income is 50 percent or less of the median in its area, with adjustments for family size.[30] In 1983, 11.5 million renter households were eligible to receive assistance, including 5.1 million families with children (see Table 4-1). As of that year, an estimated 3.5 million households received rental subsidies through the major HUD programs, representing about 30 percent of all renters in the target income group.[31] About 28 percent of eligible families with children were served, compared with 48 percent of all elderly households, the other principal eligible group.[32] As of 1983, 3.7 million poor renters with children remained unserved.

The three options considered below would expand coverage for poor families with children. The first would make housing assistance an entitlement program for this subgroup. The second would reduce subsidies for current beneficiaries to finance aid for a larger number of families with children. The third would replace housing assistance for some current beneficiaries with a smaller general income supplement that would be available to all poor families with children. All these options address the nonentitlement character of housing assistance. All would require more substantial changes in current programs than would options presented elsewhere in this paper affecting other programs.

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[29] In addition to providing aid through direct subsidies, the federal government addresses housing needs through various indirect mechanisms, including community development programs, mortgage credit and insurance activities, and income tax provisions. These approaches are not considered here. For a more detailed description of the various programs see Congressional Budget Office, "Federal Housing Assistance: Alternative Approaches" (May 1982).

[30] A limited proportion of funds may be made available for families with incomes between 50 percent and 80 percent of the area median.

[31] In addition, the FmHA provided rental assistance to 220,000 households. Since no demographic data are available for the latter, they are excluded from this analysis.

[32] Assistance to nonelderly households without children is provided subject to stringent limitations.

TABLE 4-1.—HOUSEHOLDS ELIGIBLE FOR AND RECEIVING RENTAL ASSISTANCE, 1983

[In thousands]

	With children	Without children		Total
		Elderly	Nonelderly	
Total income-eligible households	8,030	8,440	4,020	20,490
Renters	5,120	3,280	3,090	11,490
Owners	2,910	5,160	930	9,000
Total assisted households[1]	1,450	1,560	490	3,500
Assisted as percent of eligible renters in group[1]	28	48	16	30

[1] The number of assisted households includes a small number of households with income above 50 percent of their area medians. Therefore, the proportions of income-eligible households receiving assistance are somewhat overstated. In addition, the FmHA provided rental assistance to 220,000 households. Since no demographic data are available for the latter, they are excluded from this analysis.

Source: Congressional Budget Office tabulations of the 1983 Annual Housing Survey and unpublished data from the Department of Housing and Urban Development.

MAKE HOUSING ASSISTANCE AN ENTITLEMENT FOR POOR FAMILIES WITH CHILDREN

Housing assistance could be made available to all families with children at the lowest cost by expanding household-based aid.[33] The cost of an entitlement program for poor families with children would depend on the participation rate, which is difficult to predict. Experience with the Experimental Housing Allowance Program (EHAP) has shown that participation rates in programs of this sort depend on several factors, including the size of the subsidy, the program's housing standards, and the effort made to inform eligible households that aid is available.[34] The EHAP experience suggests that, once fully phased in, an entitlement program for poor families with children would aid about 50 percent of all such households. Assuming this eventual total participation rate, an entitlement program for low-income families with children would add approximately $3.5 billion per year in 1985 dollars to current outlays. Given the uncertainty associated with actual participation rates, however, the ultimate cost might be higher or lower than this amount.

This option would reduce the uneven treatment of households in similar economic situations and would provide the opportunity for all poor families with children to be adequately housed without having to spend more than 30 percent of their incomes in rent. In addition, it would eliminate the need for public housing authorities (PHA's) to ration aid among many applicants.

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[33] In recent years, the new-construction approach has been virtually abandoned in favor of the less costly Section 8 existing-housing program and the recently introduced housing vouchers. The major difference between the two latter program types is the length of the federal commitment—15 years for Section 8 existing housing and 5 years for vouchers.

[34] For estimates of participation rates by various groups of households, see Ira S. Lowry, ed., "Experimenting with Housing Allowances," The Rand Corporation (Cambridge, Mass.: Oelgeschlager, Gunn and Hain, 1983), Chapter 4.

On the other hand, relying on the existing private housing stock to provide standard housing might present problems, particularly for large households that, in tight housing markets, appear to face a shortage of units of adequate size within HUD's rent guidelines.[35] Furthermore, experience with EHAP has shown that participation rates in entitlement programs of this sort fall far short of 100 percent in both tight and loose housing markets. Therefore, in practice, disparities among households with similar incomes would be likely to continue.

REDUCE BENEFITS FOR CURRENT RECIPIENTS AND EXPAND COVERAGE FOR POOR FAMILIES WITH CHILDREN

Coverage of poor families with children could be expanded without increasing current federal outlays, by reducing benefits for all current participants through an increase in tenant rent payments. Prior to 1981, assisted tenants contributed 25 percent of adjusted income toward housing costs. In 1981 the law was changed, raising rent payments to 30 percent of income, with the increase to be fully phased in by 1986.

If tenant rent contributions were again increased to, say, 35 percent of income, a total of $1.4 billion in annual savings would be achieved in 1990 once the change was fully phased in. If those funds were redistributed to aid additional eligible families with children through Section 8 existing-housing assistance or vouchers, an additional 368,000 households could be assisted. This strategy would represent a move toward equalizing the distribution of housing assistance without affecting the federal budget. Many eligible applicants would remain unserved, however, and the burden of housing costs on poor families now being subsidized would increase.

REALLOCATE CERTAIN HOUSING ASSISTANCE TOWARD CASH GRANTS

Another way to equalize the treatment of low-income families with children, while not raising federal outlays, would be to transform some housing assistance into a smaller—but more widely available—general income subsidy. In the short run, the most accessible pool of money available for redistribution would consist of annual outlays for household-based subsidies from the Section 8 existing-housing and voucher programs.[36] While these sorts of subsi-

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[35] Under the new voucher program, a household is allowed to occupy a unit with rent above the HUD payment standard, provided that the household pays the difference.

[36] The amount of available funds would be fairly modest in the short run because of the funding mechanisms used in assisted housing programs. In the programs that support new construction or rehabilitation of assisted housing units, federal commitments were made to the project owners for periods ranging from 15 to 40 years. These commitments take different forms in various programs. Under production programs in which projects are privately owned, the government guarantees rent subsidies for tenants or subsidizes project mortgages. None of these funds would be available for redistribution in the short run, unless the government offered monetary incentives to induce project owners to convert to unsubsidized status before the federal commitment runs out. Under the public housing program, by contrast, projects are owned and operated by local public housing authorities (PHAs), with the federal government paying the full capital costs and, since the 1960s, a share of the operating costs as well. Payments for the capital costs represent a long-term federal obligation and hence would not be available for redistribution. Payments for operating subsidies, on the other hand, are provided on an annual basis and could

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dies are tied to housing consumption because of the requirement that assisted households occupy standard housing, they are already much closer to general income transfers than are project-based subsidies. This is particularly the case if a household does not move to a different dwelling upon receiving housing subsidies. Also, the majority of households assisted under these programs are families with children—the same target group as for the more widely available income supplement.

In 1985, the estimated expenditures for all household-based subsidies under the Section 8 existing-housing and voucher programs will amount to $2 billion, providing assistance to about 803,000 households.[37] The average subsidy to a family with children receiving assistance for the entire year will amount to almost $3,300. The amount of cash assistance that could be provided per family with children if this $2 billion were transformed into an entitlement income supplement would depend on the definition of the eligible group. If aid were limited to the 4.3 million renter families with incomes below 50 percent of the area median who do not live in projects that would continue to be subsidized, each family would receive about $470 of additional income per year in 1985 dollars. If income eligible homeowners with children were included in the target group, the annual average income supplement would decrease to $280 per household.

Implementation of this strategy would eventually eliminate uneven treatment of poor renters with children, but only in the very long run, once all federal commitments to project owners had terminated. This option would, however, increase housing costs substantially for those households that no longer would receive housing aid. Currently assisted households with children would lose up to 90 percent of their aid, and those households without children—principally the elderly—would lose all assistance. Many of these households may have come to rely on their housing subsidies and may have incorporated them in their housing consumption decisions. Thus, some households might be forced to move from their current residences upon losing housing assistance payments. In addition, based on experience with the EHAP program, in the absence of requirements to occupy standard housing, a general income transfer would not be likely to contribute substantially to the goal of reducing the incidence of substandard housing, particularly in view of the limited increase in each household's income.

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presumably be terminated. Without these subsidies, however, PHAs would have to increase rents charged to their tenants, making this housing stock unaffordable for the poor. This might create a shortage of housing available to the poor, particularly in some large cities, where public housing may represent up to 15 percent of the total rental housing stock and a much larger share of the units occupied by low-income families.

[37] This figure excludes over $1 billion of projected outlays for various project-based subsidies under the Section 8 existing-housing and moderate-rehabilitation programs. In these cases, contractual obligations to project owners would prevent the release of funds for periods of up to 15 years. These subsidies include payments to households living in older projects that receive assistance under HUD's largely inactive mortgage-subsidy programs.

CHAPTER V. OPTIONS TO DEAL WITH THE EFFECTS OF POVERTY

While the poor can often be helped by policies that increase their resources, some of their difficulties may be better dealt with by programs that seek to prevent poverty or ameliorate its effects. Programs that identify nutrition and health problems, especially for children and families most at risk, can help prevent the permanent effects of undernutrition and can mitigate problems associated with hunger. Similarly, agencies that deal with child abuse and help place children with adoptive parents or in foster homes can reduce the incidence of child abuse and help families prevent its recurrence. Education programs can offer remediation or other special services designed to meet the special needs of some poor children. Finally, adolescents may require special services to prevent teenage pregnancy, or to help adolescent mothers become self-sufficient. This chapter discusses options for dealing with each of these services.

Nutrition and Health Services—The Supplemental Food Program for Women, Infants, and Children

The Supplemental Food Program for Women, Infants, and Children (WIC) provides food assistance and nutritional screening to low-income pregnant and postpartum women and their infants, as well as to low-income children up to age five. Participants in the program must have incomes below 185 percent of poverty and must be nutritionally at risk.[1] Under the Child Nutrition Act of 1966, nutritional risk is defined as detectable abnormal nutritional conditions; documented nutritionally related medical conditions; health-impairing dietary deficiencies; or conditions that predispose people to inadequate nutrition or nutritionally related medical problems.[2]

Evaluations of the WIC program have found that it has had a positive effect on reducing low birthweight among infants—a condition that is linked to poor pregnancy outcomes and increased probability of infant mortality. WIC has been especially effective for teenage and minority mothers, as well as for others who are particularly at risk.[3] Although studies have also found that the program has had positive effects on other problems, such as the incidence of anemia, there is some debate over the conclusiveness of these other findings.[4]

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[1] Although states are free to set their upper income-eligibility limits between 100 percent and 185 percent of poverty, the majority have used 185 percent of poverty as the cutoff. Senate Committee on Agriculture, Nutrition and Forestry, "Child Nutrition Programs: Description, History, Issues, and Options" (January 1983), p. 62

[2] Ibid., p. 61.

[3] General Accounting Office, "WIC Evaluations Provide Some Favorable but no Conclusive Evidence on the Effects Expected for the Special Supplemental Program for Women, Infants, and Children" (January 30, 1984), pp. ii, iv, and v.

WIC is a grant program, and does not serve all who are eligible. In 1984, $1.36 billion was appropriated for WIC, permitting it to serve approximately 3 million women, infants, and children. Access to the program is uneven, however. It is difficult to estimate what proportion of the eligible population is served—primarily because it is not clear how large the eligible population is. While one can estimate the number of women, infants, and children who are income-eligible for the program (assuming the maximum income level), it is not easy to ascertain how many also meet the nutritional risk requirement. An estimated 30 percent of the income-eligible women, 45 percent of the income-eligible infants, and 20 percent of the income-eligible children were served in 1983.[5] Some argue that most low-income women and children have either some sort of nutritional deficiency or an inadequate diet that could lead to such a deficiency, and therefore that most of those who are income eligible would also qualify as being nutritionally at risk.

If the Congress chose to expand WIC coverage to a greater proportion of the eligible population, a number of options would be available. It could:

—Increase appropriation levels to provide financial assistance to states for the establishment or expansion of WIC programs in high-priority areas that are currently underserved; or

—Convert WIC to an entitlement under which states would be reimbursed for each client served.

INCREASE APPROPRIATION LEVELS TO PROVIDE FUNDING FOR THE ESTABLISHMENT OF WIC PROGRAMS IN HIGH-PRIORITY AREAS

The WIC program serves as a mechanism for identifying low-income women and children who are at medical and nutritional risk, and can link these women and children to the larger health system through referrals.[6] Current appropriation levels mean, however, that states cannot serve the entire eligible population.

One means of expanding coverage, without creating an entitlement, would be to increase funding by some fixed amount. For example, if the Congress increased appropriation levels by $500 million, the program could serve approximately 1 million additional people.[7] This would increase coverage—by either opening new WIC programs or expanding current efforts—without increasing administrative complexity.

This kind of option would expand coverage with a relatively small increase in total funding, yet leave future expenditures under the control of the appropriation process. Proponents maintain that WIC is a cost-effective way of improving pregnancy outcomes and maternal and child health. They also argue that WIC's health-screening services allow for the early detection of potentially disabling and costly illnesses and health problems. Finally, proponents point out that the provision of additional prenatal care would reduce future health care costs, as inadequate prenatal care and nutrition are linked with increased costs of intensive care for newborns, mental retardation, and other disabling health problems.[8] On the other hand, people who question WIC's effectiveness also question the appropriateness of expanding the program. Some argue that the program already serves those who are most in need, and that expansion is unnecessary.

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[4] Ibid., p. v. The GAO report concluded that WIC had "modestly positive effects" in some areas other than low birthweight (p. ii). The Department of Agriculture is currently engaged in a major WIC evaluation, and the results should be released shortly.

[5] CBO calculations, based on March 1984 Current Population Survey. Note that these estimates are based on the number of women, infants, and children whose household incomes were below 185 percent of poverty. Individual state variations in income eligibility guidelines are not, therefore, taken into account.

[6] See Mark Bendict, Jr., Toby H. Campbell, D. Lee Bawden, and Melvin Jones, "Toward Efficiency and Effectiveness in the WIC Delivery System" (Washington, D.C.: Urban Institute, April 1976).

[7] Funding for the operation of 200 new average-sized WIC programs (approximately 300 clients each) would cost, for example, $31 million in 1986.

CONVERT WIC TO AN ENTITLEMENT PROGRAM

WIC coverage could be extended to all eligible women, infants, and children if it were converted to an entitlement program—under which each state would be reimbursed for as many eligible clients as it serves. Under this alternative, an estimated 6.5 million to 7.5 million people could be eligible for WIC on the basis of income, costing up to $3.8 billion dollars in 1985 if every eligible woman, infant, and child participated. It is, however, quite unlikely that all income-eligible people would also meet the nutritional risk requirement, or that they would all participate if found eligible.

Proponents of this option argue that it would remedy a major inequity in the current health system by extending WIC coverage to all women and children who are at medical and nutritional risk. Opponents argue against the creation of any new entitlement program at this time—mainly because eligibility would be based primarily on income level and, hence, costs could be difficult to control. They also suggest that the evidence of WIC's effectiveness is not conclusive, and that major expansions should not take place without such evidence.

CHILD WELFARE SERVICES

Child welfare services differ from the other programs discussed in this chapter in two ways. First, these programs seek to help children of all income levels who are neglected or abused by their parents, rather than focusing only on the needs of poor children, although a disproportionate number of these children come from low-income families. Second, the level of state intervention is much greater than in the other areas discussed—the child is frequently in the partial or complete custody of the state, and parental rights are usually at risk of being terminated.

Child welfare service programs include identification and protection services for abused and neglected children, foster care for those childen who must be removed from their parents' custody, and adoption assistance to help them obtain permanent homes. An estimated 850,000 cases of child abuse and neglect were reported in 1981, and an estimated 273,000 children were in foster care.[9]

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[8] Institute of Medicine, "Preventing Low Birthweight" (Washington, D.C.: National Academy Press, 1985), pp. 24–33.

Funding for child welfare programs comes from state (and local) sources as well as federal social service and child welfare funds. One study estimated that 52 percent of all funds spent on child welfare services in fiscal year 1982 came from state and local sources, an additional 30 percent from the federally funded Social Services Block Grant program (SSBG, or Title XX of the Social Security Act), 9 percent from Title IV-E of the Social Security Act, 5 percent from Title IV-B of the Social Security Act, and the remainder from other federal sources.[10] Comprehensive national data on the number of children and families receiving various child welfare services, and the costs of those services, are inadequate. The collection of such data would greatly improve efforts to evaluate current services and programs, and to assess policy options in this area.

Although child welfare services are for children of all income levels, children from low-income families are overrepresented in the child welfare system. Low-income families generally do not have the assets to deal with the various crises that commonly confront all types of families, and can find it difficult to afford the necessary services. They are, therefore, obliged to turn to public programs for aid. Consequently, the incidence of reported cases of child neglect (in particular) is higher among low-income families, but, the difference from higher-income families is probably overstated.[11] In addition, after being removed from their homes, poor

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[9] Martha R. Burt and Karen J. Pittman, "Helping the Helpless: The Impact of Changes in Support Programs During the Reagan Administration," discussion paper by the Urban Institute's Changing Domestic Priorities Project (Washington, D.C.: Urban Institute, October 1984), p. 13.

[10] Jeffrey Koshel and Madeleine H. Kimmich, "Summary Report on the Implementation of P.L. 96-272" (Washington, D.C.: Urban Institute, September 1983), p. 24.

The Social Services Block Grant (SSBG) is the primary source of federal funding for social services. Within broad federal guidelines, states are allowed to choose the services they wish to fund, design their own programs, and establish their own eligibility criteria. Services funded through the SSBG include child welfare services, child care, adult protective services, homemaker services, and others. The estimated fiscal year 1985 outlays are $2.8 billion.

Title IV-E of the Social Security Act is an entitlement program that provides matching funds to the states for foster care maintenance costs. These funds, however, are restricted to children who were eligible for AFDC when they entered the foster care system, and who met other eligibility requirements as well. Legislation enacted in 1980 required that, by October 1983, there must be "reasonable effort" made to provide all children receiving foster care under Title IV-E with prevention and reunification services, and that the state would not be able to receive funding for children for whom such efforts had not been made. States are not, however, allowed to use Title IV-E funds to pay for these services. The fiscal year 1985 estimated outlays are $527 million, which includes $42 million in prior year claims.

Title IV-B of the Social Security Act gives states matching funds to provide a range of child welfare services. Title IV-B is authorized for 1985 at $266 million, although estimated 1985 outlays are $200 million. Legislation enacted in 1980 (P.L. 96-272) required that none of the Title IV-B funds above the 1979 level of $56.5 million be spent on foster care maintenance costs, employment-related child care, or adoption assistance, in order to encourage the development of alternative services. This legislation also included other requirements that were designed to provide states with incentives to provide prevention and reunification services.

[11] One study found, in the late 1970's that approximately 39 percent of the child neglect cases and 28 percent of the child abuse cases receiving services were from AFDC families. Ann Shyne and Anita Schroeder, "National Study of Social Services to Children and Their Families" (Rockville, Md.: Westat. Inc., 1978); cited in Burt and Pittman, "Helping the Helpless" (Washington, D.C.: Urban Institute, 1984), p. 22. Another study estimated that almost half of the protective services caseload comprised families that had received public assistance. (Data from the National Center for Child Abuse and Neglect, cited in Burt and Pittman, "Helping the Helpless," p. 19.) In contrast, during the same period, approximately 6 percent of all children were in families that received AFDC (Ibid., p. 22).

The high incidence of reported cases among the poor probably overstates the actual difference between income levels, however, because upper- and middle-income families are far more likely

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and minority children face more difficulties in returning to their parents' homes or in being placed in other permanent homes.[12]

Recent years have seen an increasing effort to keep families together by providing both prevention and reunification services. The first are services that can help prevent or stop the incidence of abuse and neglect, and therefore prevent the parents from losing custody of the child; these include 24-hour access to intensive family-based services, homemaker services, counseling, child care, emergency temporary shelters, and crisis intervention. Reunification services, on the other hand, help the family to resolve its problems and to regain custody of the child if custody has been lost; such services include family and individual therapy, child care, counseling, and a number of services related to the transition and the follow-up after the child has been returned to the home. Effective prevention and reunification services can reduce family breakups—thereby maintaining the integrity of the family as well as avoiding the high costs of maintaining a child in foster care (1984 average annual payments were approximately $5,600).[13]

The Adoption Assistance and Child Welfare Act of 1980 (P.L. 96-272) was developed, in part, to provide states with incentives both to avoid the unnecessary placement of children in foster care through prevention services, and to reduce the duration of the placement by first working to reunify the family and, if unsuccessful, arranging for the child to be adopted. Funding these services is essentially limited to state and local sources, the SSBG, and Title IV-B.

Although no national data are available, some evidence suggests that states have had difficulty in fully developing and implementing the prevention and reunification service systems required by this act.[14] One reason may be the constraints placed in recent years on each of the main sources of funding for child welfare—the reductions in the Social Services Block Grant, slower growth in Title IV-B funding than had been expected when Public Law 96-272 was passed, and the fiscal difficulties experienced by many states—in conjunction with an increased demand for crisis services.[15]

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to have access to private sources of support and counseling, and therefore are not as likely to be reported to the authorities.

[12] For example, minority children are in care longer. Black parents have their parental rights terminated (meaning the child is permanently removed from parental custody) more often, but their children are adopted less often. Burt and Pittman, "Helping the Helpless," pp. 19, 28, and 33.

[13] The average cost figure cited here is based on the average payment for children in the Title IV-E AFDC foster care program only. Costs for foster care vary widely—by state, by age level of the child, by the location of care (private home or institution), and sometimes by special needs designation. For example, in 1980 (the last time foster care payment data were broken down in this way), average annual AFDC payments for children in foster-family homes were $3,000, while average annual payments for child care institutions were $14,000. "Social Security Bulletin," vol. 44, no. 11 (November 1981), p. 53.

[14] For example, a six-state survey conducted by the Urban Institute found that only two of the six states expanded their state funding for preventive services. It also found that some states had to choose between maintaining funds for current crisis services and providing funds for new prevention services. Not surprisingly, it appears that funding for crisis services was maintained. Koshel and Kimmich, "Summary Report on the Implementation of Public Law 96-272," p. 8.

[15] The number of reported cases of child abuse and neglect doubled between 1976 and 1981. This increase is attributed to a combination of factors, including an increase in the public awareness of the problem and an actual increase in the incidence of abuse partly resulting from stress caused by increased unemployment and related financial difficulties. Burt and Pittman, "Helping the Helpless," pp. 23-24.

If the Congress decided to further the development of prevention and reunification services in the child welfare system, it could:

—Increase funding for the Social Services Block Grant (SSBG), and earmark the additional funds for child welfare services; and

—Provide incentive funding to foster innovative state approaches to prevention and reunification, as well as funding to evaluate and disseminate information about such approaches to other states.

INCREASE FUNDING FOR THE SOCIAL SERVICES BLOCK GRANT, AND EARMARK THE ADDITIONAL FUNDS FOR CHILD WELFARE SERVICES

This option would earmark additional funds for the development of prevention and reunification services for low-income families.[16] It would increase the states' ability to develop the services mandated by the Adoption Assistance and Child Welfare Act of 1980.

Although several states are in good fiscal condition, proponents of this option argue that some states do not currently have the resources to develop prevention programs. They maintain that the development of such services should not depend on the fiscal condition of individual states. Further, they contend that such services are cost-effective because they reduce the need for foster care. Opponents maintain that this option would restrict the ability of state governments to determine their own service priorities, thus partially reversing the block grant process. Some also argue that the effectiveness of preventive services has not yet been established, and that funding therefore should not be focused on this area.

PROVIDE INCENTIVE FUNDING TO FOSTER INNOVATIVE STATE PREVENTION AND REUNIFICATION SERVICE PROGRAMS

Additional funding could also be provided to encourage innovative approaches to help low-income families in the child welfare system.

Although several approaches are possible, one alternative would be to allow states to receive additional funds up to 10 percent of their Title IV–B funding to develop prevention and reunification programs. This would cost a maximum of $20 million for 1985. These programs could include an evaluation component to examine the effects and costs of different approaches. The federal government could also provide funds (through the Children's Bureau) to encourage the collection and dissemination of information about new prevention and reunification efforts. Some states have already developed innovative programs, and information could be disseminated about these current efforts as well.

Two existing programs, described below, illustrate state initiatives that might be fostered by increased federal funding. The first provides an innovative alternative to out-of-home care for low-income families, and the second aids selected families who are trying to regain custody of their children.

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[16] To ensure expansion of services, rather than merely substitution of federal for state funding, the legislation would have to include a maintenance of effort clause.

Emergency cash fund for child protective services

In 1979, New Jersey implemented a statewide program that established an Emergency Cash Fund for families whose children have been identified as being neglected or abused. The program provides families with payments to help them resolve emergency situations such as rent problems, food shortages, and utility cutoffs. The program is intended to prevent immediate harm to children, to prevent the out-of-home placement of children, and to improve the relationship between the client and the caseworker. The service was to be used only if all other resources had failed.[17]

Evaluations of the program have found that the grants, which averaged $123, had positive effects—helping families overcome crises, and allowing the welfare agencies to respond quickly to problems that presented potential danger to the children. Specifically, the evaluations found that, in the majority of cases, the agency decided there was no longer any danger to the child less than 1 year after the cash assistance was awarded, and so closed the case. Eighty percent of the caseworkers reported that the particular problem that had elicited the cash assistance had not recurred in the following year, and 69 percent reported that the family's situation had improved or that the grant had helped to maintain the family's integrity. Almost 40 percent of the caseworkers found that the emergency assistance allowed the family to stay together when they otherwise would have had to separate. The evaluations tentatively concluded that the fund was able to prevent both the continuation and the reemergence of crisis situations, and apparently had a measurable effect in preventing the placement of children outside their homes.[18]

The family reunification benefits program

Massachusetts recently implemented the Family Reunification Benefits Program (FRBP), an effort to assist poor families (primarily AFDC recipients) whose children have entered foster care. It addresses the fact that parents whose children are placed in foster care usually lose some or all of their AFDC benefits. At the same time that the parents face reduced income, however, they are expected to resolve the problem that caused the placement, as well as maintain an adequate home so the children will be returned.

The FRBP provides cash benefits to AFDC-eligible families whose children are either expected to be in care for 6 months or less (FRB Short-Term Placement Benefits), or are expected to be returned home in 3 months (FRB Return Home Benefits).[19] The benefits are provided to families only once. This program has not yet been evaluated.

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[17] Other localities have implemented similar programs. For example, the San Francisco Department of Social Services operates an emergency assistance program with funding from private foundations and corporations.

[18] Leroy H. Pelton and Elizabeth Fuccello, "An Evaluation of the Use of an Emergency Cash Fund in Child Protective Services" (December 1978), and Elizabeth Fuccello and Fred Lowe, "A Follow-up Evaluation of the Use of an Emergency Cash Fund in Child Protective Services" (October 1980), Bureau of Research, Division of Youth and Family Services, New Jersey Department of Human Services.

[19] Families eligible for the FRBP include those who continue to receive AFDC for other children still in the home, as well as those whose AFDC payments stopped when the child was placed.

TARGETED EDUCATION PROGRAMS

Poor children are more likely than others to fare badly in school, for a variety of reasons. Their parents tend to have less education themselves, and in some cases their homes may provide less support for learning the skills and information on which success in school depends. About half of poor children live in single-parent homes, and their parents may find it particularly hard to provide resources and time for their children. A variety of other effects of poverty—including factors as diverse as poor nutrition, inadequate medical care, and psychological stress—may interfere with poor children's performance and learning in school. In addition, localities with high concentrations of low-income students may find it particularly difficult to raise funds to pay for high-quality education programs.

Many federal programs, including some outside the area of education itself, could help the school performance of many children. This section considers two options for changing programs with a major emphasis on education: expansion of Head Start, and increased funding for compensatory education.

EXPAND HEAD START

Head Start, first authorized in 1964 by the Economic Opportunity Act, provides a wide range of services to low-income children and their families in the context of a preschool child care program. Its goals are diverse and include both helping the children and their families with their present circumstances and lessening the disadvantages faced subsequently by many such children in school and in future work. The services provided include child care with a developmental orientation; physical, dental, and mental health services (including screening and immunizations); and nutritional and social services. Parental involvement is extensive, through both volunteer participation and employment of parents as Head Start staff. Formal training and certification as child care workers is provided to some parents through the Child Development Associates program.

Head Start primarily serves children between the ages of 3 and 5 and their families. More than 90 percent of the children served are poor, and over 10 percent are handicapped. In fiscal year 1985, approximately 450,000 children—about 19 percent of 3 to 5 year-old children in poverty—are expected to be served in full-year Head Start programs.[20] Only about one-fifth of those served, however, are in full-day programs (more than 6 hours per day).

Head Start is effective as a means of providing services to its target population, but its impact on the subsequent school experience of children in the program remains unclear. On the one hand, a small number of carefully designed studies have demonstrated that preschool education programs can substantially decrease the frequency of school failure among poor children.[21] One study also

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[20] The estimate of the proportion of poor children served by Head Start in fiscal year 1985 is based on the assumption that the 1985 poverty rate will fall to 1981 levels.

[21] See, for example, J.R. Berrueta-Clement and others, "Changed Lives: The Effects of the Perry Preschool Program on Youths Through Age 19" (Ypsilanti: The High/Scope Press, 1984);

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found substantially higher employment rates and lower rates of detention and arrest among poor 19-year-old youths who had been provided preschool education.[22] On the other hand, the evidence is ambiguous concerning the extent to which Head Start itself has demonstrated such success. This ambiguity reflects the difficulty of finding control groups—that is, groups of children excluded from Head Start who could be considered truly comparable to those in the program—whose performance could indicate how Head Start children would have fared without the program. It also reflects the difficulty and expense of following large groups of children for many years to monitor their experiences in school.

Expansion of Head Start could serve a number of disparate purposes, including: providing high-quality child care that meets clear standards to children of working parents currently receiving less adequate care; increasing access to social services, health screening, and health services such as immunization; providing helpful cognitive stimulation to the children, perhaps decreasing the likelihood of later school failure or unemployment; providing benefits, through parent participation and changed parental behavior, to siblings of enrolled children; making it feasible for additional parents to work by providing child care; and providing employment and training for the mothers of some low-income children and other low-income adults.

Additional money could be used for a variety of purposes, including:

—Extending services to a greater proportion of poor children in the 3-to-5 age group;

—Increasing the proportion of children receiving full-day services; or

—Extending services to children under age 3.

Extending the current services to more 3-to-5-year-olds would have the advantage of increasing the number of children served, maximizing for each additional dollar the number of children receiving such services as immunizations, health screenings, and improved access to social services. Its drawback is that it would probably do less to free additional parents to work than would increasing the proportion of children receiving full-day services. On the other hand, given the small proportion of children now receiving full-day services, the second option could consume large amounts of additional funding before any additional children were served.

Extending services to children under age 3 would have two principal advantages. First, it would provide the diverse benefits of the program to children at very young ages—when in some cases their effects might be greatest—and for a longer period of time. Second, it would free some parents of very young children to work. On the other hand, extending services to younger children would have several drawbacks. The cost per student would be higher for any given level of quality of care (because of the higher staff-to-student ratios required for younger children). It would require changes in the operation of centers and training of staff. To the extent that this

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and R. Darlington and others, "Preschool Programs and Later School Competence of Children from Low-Income Families," Science, vol. 208 (April 11, 1980), pp. 202–204.

[22] Berrueta-Clement, "Changed Lives."

change resulted in children remaining in the program longer, it would do less to expand the number of children served than would many other options. Finally, taken alone, it would do nothing to solve the employment problems experienced by parents because of half-day programs.

The costs of sizable expansions of Head Start could be high. The average annual cost per child is now approximately $2,400. Expanding services to additional children in areas that currently have centers would probably cost nearly as much on a per-child basis—roughly a quarter of a billion dollars per additional 100,000 children served. Extension of services to areas in which no services are currently provided (generally, rural counties with small populations) would cost considerably more, because of the high costs of transportation in rural areas. Extension of the program to full days would be the cheapest option on a per-hour basis because of fixed costs (such as rent).

INCREASE FUNDING FOR COMPENSATORY EDUCATION (CHAPTER 1)

Chapter 1 of the Education Consolidation and Improvement Act of 1981 (formerly, Title I of the Elementary and Secondary Education Act) provides funding for compensatory education programs for low-income and "educationally deprived" students. Funds are allocated to districts and schools on the basis of the number of low-income children, but children are selected to receive services on the basis of their level of achievement, independent of their income. The purpose of the program is twofold: to help disadvantaged students improve their educational performance, and to provide fiscal relief for districts burdened by larger numbers of poor children with special educational needs.[23]

Title I was found to be highly effective in targeting fiscal relief to districts with large numbers of poor children.[24] Evaluations have also consistently found that the program has positive short-term effects on student performance. Evidence about its longer-term impact is more mixed, as some studies show a tendency for former compensatory education students to regress somewhat (in terms of their percentile ranking among all students) after leaving the program.[25] On the other hand, groups that are the primary recipients of these services (such as minority students and students attending disadvantaged urban schools) have shown relative gains in achievement in recent years, and some observers suggest that this may reflect the effects of this program.[26] While compensatory education may have played a role in this trend, however, such a role has not been clearly documented.

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[23] Omnibus Budget Reconciliation Act of 1981, section 552.

[24] The most recent evaluation of the distributional impact of federal compensatory education funding was conducted in the mid-1970s by the National Institute of Education, "Title I Funds Allocation: The Current Formula" (September 30, 1977). The effect of subsequent legislated changes is therefore unclear.

[25] See, for example, Education Department, "Annual Evaluation Report, Fiscal Year 1982," pp. 29-32, and R.M. Gabriel, "Sustained Achievement of Differential Patterns of Compensatory Education: A Longitudinal Data Base," in R. Stonehill (Chair), "The Sustained Achievement of Title I/Chapter 1 Students: A National Study." (Symposium presented at the annual meeting of the American Educational Research Association, April 1985.) Preliminary findings from some recent research suggest that skills in the areas that are most emphasized and practiced in compensatory programs are often not lost. Rather, the tendency of former compensatory students to fall back in terms of their percentile ranking after leaving the program appears to stem from a loss of less-emphasized skills and perhaps an inability to master new material subsequently presented in regular classes at a sufficiently rapid rate. (Robert M. Stonehill, personal communication, May 1985.)

While appropriations for Chapter 1 have fluctuated relatively little in recent years and are currently about 14 percent above the level of 1979, the real level of support provided by these appropriations has been seriously eroded both by inflation and by the growing number of children in poverty. In real terms, the 1985 appropriation for Chapter 1 is roughly 29 percent lower than the 1979 appropriation. The real funding per poor child has declined even more markedly; in 1983 (the last year for which data on the number of children in poverty are available), real appropriations per child in poverty were 53 percent of the 1979 level. While the number of poor children in 1985 is not yet known, it is likely that 1985 Chapter 1 appropriations per poor child have increased modestly since 1983 but remain far below the 1979 level.[27]

Increasing Chapter 1 by $1.5 billion would fully offset the decline of real funding levels attributable to inflation, but would offset none of the additional erosion caused by the increased number of children in poverty.[28] This would enable districts to extend services to some of the newly poor children who are in need of compensatory education. It would also enable some districts to maintain special services for a longer part of some children's schooling—which, the evidence suggests, may be necessary to maintain the gains shown by some compensatory education students. On the other hand, given current budgetary constraints, channeling such a large amount of money into Chapter 1 might reduce funding available for other services for children in poverty that some might consider more urgent. Some also argue that since the program's long-term impacts are less clear, funding should not be expanded.

SERVICES RELATED TO ADOLESCENT PREGNANCY AND PARENTHOOD

Problems of adolescent pregnancy and parenthood are central to any discussion of poverty among children. Teenage mothers, and women who became mothers when they were teenagers, are very likely to be poor, and they comprise a disproportionate share of the AFDC population. Adolescent parenthood is therefore related to poverty experiences among two groups of children—teenagers, who are themselves still children, and their children.

The rest of this chapter describes problems of teenagers who have children and then examines options to prevent teenage pregnancy or to reduce poverty among teenage parents.

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[26] See, for example, Archie E. Lapointe, Statement to the Subcommittee on Elementary, Secondary, and Vocational Education of the House Committee on Education and Labor, January 31, 1984.

[27] Between 1983 and 1985, total Chapter 1 appropriations increased only slightly more than enough to offset inflation. The number of children in poverty, however, is likely to have decreased as a result of the current economic recovery. If the number of poor children in 1985 is equal to the number in 1980—a rather optimistic assumption—real Chapter 1 funding per child in poverty in 1985 would be 63 percent of that in 1979.

[28] The overlap between children in poverty and those showing the chronic low achievement that is the focus of compensatory education is not complete, and an unknown proportion of newly poor childern do not require the services typically provided under Chapter 1, although they may require other special services. Accordingly, real appropriations per poor child in need of compensatory education have fallen by less than have real appropriations per poor child.

THE PROBLEMS OF PREGNANT ADOLESCENTS AND ADOLESCENT PARENTS

Adolescent pregnancy and parenthood have received increasing attention in recent years. Three trends are of particular concern. First, the adolescent pregnancy rate rose steadily throughout the 1970's, although its growth appears to have leveled off in the last few years (see Chart 2).[29] Over one million teenagers have become pregnant each year since 1974. Using pregnancy rates from the late 1970's, it was projected that four out of every ten girls aged 14 would become pregnant before they were 20.[30] Second, although its rate of growth has also slowed recently, the use of abortion by adolescents increased during the 1970's—rising from 24 percent of all adolescent pregnancies in 1973 to 39 percent in 1982.[31] Third, the birthrate of unmarried teenagers has risen by 29 percent between 1970 and 1982 (see Chart 3). When combined with the increasing propensity of teenagers to raise their children themselves rather than allowing them to be adopted, this trend has resulted in increasing numbers of single teenage parents. These rates and trends differ among races, with birthrates and unmarried birthrates substantially higher among blacks and other minorities than among whites. In recent years, however, the unmarried birthrate among whites has increased substantially while that of blacks has decreased.

Adolescent pregnancy and parenthood are of particular concern because they are clearly linked to poverty and long-term welfare dependency. Adolescent parenthood is associated with a series of related events that increase the new family's likelihood of being poor. These include a greater risk of pregnancy complications, reduced schooling, an increase in single parenthood coupled with inadequate child support, larger subsequent family size, and lower earnings.

Teenage mothers are much more likely to have medical complications during pregnancy than other mothers. For example, teenage mothers have higher rates of toxemia, anemia, and prolonged labor; higher rates of infant mortality; and more babies that are premature or have low birthweight.[32]

Many of these complications seem to be linked to the level of prenatal care rather than to the young age of the mother (particularly for teenagers between the ages of 15 and 19), and can be largely eliminated if the pregnant adolescent obtains early, high-quality prenatal care.

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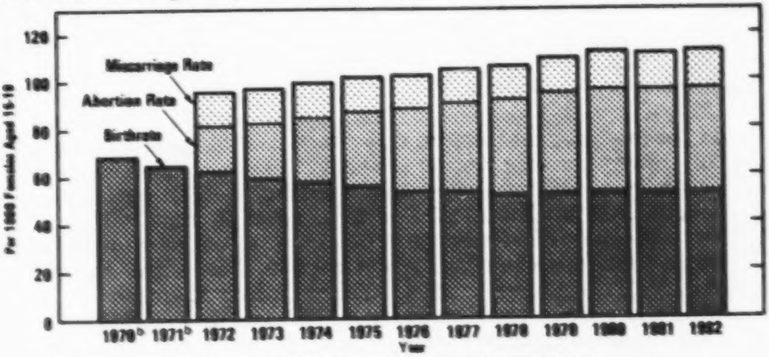
[29] All statistics are for adolescent females aged 15–19, unless otherwise specified. Pregnancy and abortion data are from the Alan Guttmacher Institute (AGI), and birthrate data are from the National Center for Health Statistics (NCHS), "Advance Report of Final Natality Statistics," 1982, vol. 33, no. 6, Supplement (September 28, 1984).

[30] C. Tietze, "Teenage Pregnancies: Looking Ahead to 1984," Family Planning Perspectives (1978), cited in Alan Guttmacher Institute, "Teenage Pregnancy: The Problem That Hasn't Gone Away" (New York: AGI, 1981), p. 21.

[31] The increased use of abortion, in combination with other factors, has resulted in a decrease in the birthrate among all adolescents over the same period.

[32] Low birthweight is associated with increased infant mortality rates, birth injuries, and neurological defects—including mental retardation, cerebral palsy, and epilepsy.

Chart 2.
Adolescent Pregnancy Rate and Outcomes, 1970-1982[a]

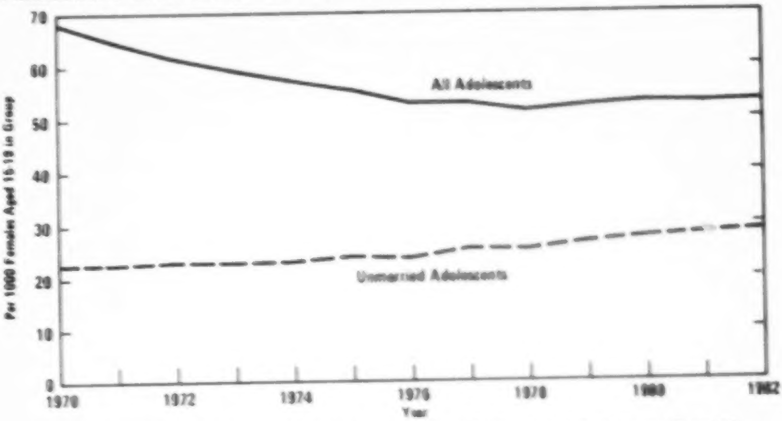


[a] The pregnancy rate is the sum of the birthrate, abortion rate, and miscarriage rate.

[b] Pregnancy, abortion, and miscarriage data are not available before 1972 because abortion was not legal in many areas at that time.

SOURCE: Congressional Budget Office. Pregnancy and abortion data from the Alan Guttmacher Institute, unpublished data. Birth data from National Center for Health Statistics, *Advance Report of Final Natality Statistics: 1982*, vol. 33, no. 6, Supplement (September 28, 1984), p. 16.

Chart 3.
Adolescent Birthrates, 1970-1982



SOURCE: Congressional Budget Office, from National Center for Health Statistics, *Advance Report of Final Natality Statistics: 1982*, vol. 33, no. 6, Supplement (September 28, 1984), pp. 16 and 31.

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Young parents are far more likely to drop out of school than are other teenagers, which substantially affects their future ability to be self-sufficient. Although dropout rates among teenage parents have fallen in past decades, a large majority of teenage mothers are not enrolled in school nine months after giving birth.[33] The causal relationship between dropping out and adolescent parenthood appears to be two-directional: those who are parents find it more difficult to stay in school, and those who have no motivation to stay in school are more likely to become adolescent parents.

Although many teenage mothers marry before age 20, their marriages tend to be unstable; it is likely, therefore, that a teenage mother will spend at least a portion of her life as a single parent—whether or not she marries the father of the child. Moreover, teenage mothers receive very little financial aid from the fathers of their children.[34]

Having a child as a teenager substantially increases the likelihood of eventually having a large family. Moreover, parents who have had children as adolescents can find it difficult to support their families both initially and later on, as they frequently have lower-paying jobs than do those who have delayed childbearing. Partly because of the combination of these two factors—large family size and low wages—the poverty rate among single mothers climbs steadily with each additional child.

As might be expected, a disproportionate number of welfare recipients are teenage parents and women who have been teenage mothers. In 1975, more than 60 percent of AFDC recipients under the age of 30 were estimated to have been teenage parents, as compared with 35 percent of the rest of the under-30 female population.[35] Moreover, mothers under 30, who are nonwhite, unmarried, and high school dropouts, are likely to be dependent on welfare for long periods of time—their average stay on welfare being 10 years.[36] Because of this pattern, teenage parenthood is costly not only for those involved, in terms of quality of life and opportunities, but also for the government. An Urban Institute study estimated that the federal government spent $8.55 billion in 1975 on AFDC households where the mother was a teenager when she had her first child.[37] Another study estimated that each of the estimated 442,000 teenage first births in 1979 would cost the federal, state, and local governments together an average of $18,700 in additional health and welfare costs over the next 20 years.[38]

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[33] One study found that the proportion of pregnant adolescents enrolled in school five months *before* giving birth rose substantially between 1968 and 1979—from 20 percent to 42 percent for whites, and from 45 percent to 70 percent for blacks. Although the proportion enrolled nine months *after* giving birth also rose, the enrollment levels were much smaller—rising from 5 percent to 17 percent for whites and from 15 percent to 39 percent for blacks. Frank Mott and Nan L. Maxwell, "School-age Mothers: 1968 and 1979" (1981), cited in Richard F. Wertheimer and Kristin A. Moore, "Teenage Childbearing: Public Sector Costs—Final Report" (Washington, D.C., Urban Institute Project Report, December 1982), p. 7.

[34] In 1978, only 6.3 percent of all never-married mothers received child support, and only 16 percent of all single mothers between the ages of 18 and 24 received child support. Department of Commerce, Bureau of the Census, "Child Support and Alimony: 1978" (Current Population Reports, 1981), p. 13. Adolescent fathers are unlikely to be able to provide substantial financial support to the mothers of their children, as they tend to drop out of school earlier and have jobs with low pay rates.

[35] K. Moore, "Teenage Pregnancy and Welfare Dependency," Family Planning Perspectives, vol. 10, no. 4 (1978), p. 234. Moore and Burt, "Private Crisis, Public Cost: Policy Perspectives on Teenage Childbearing" (Washington, D.C.: Urban Institute, 1982).

[36] Mary Jo Bane and David T. Ellwood, "The Dynamics of Dependence: The Routes to Self-Sufficiency," Department of Health and Human Services Contract Report (Cambridge, Mass: Urban Systems Research and Engineering, Inc., 1983), p. 30.

REDUCING THE INCIDENCE OF ADOLESCENT PREGNANCY

The first set of options considered here are those that prevent the incidence of teenage pregnancy; those that seek to minimize its adverse consequences are examined next. Options to avoid pregnancy are important because once the adolescent becomes pregnant, the choices and interventions become more difficult, more traumatic, and more expensive. Teenage pregnancy can be prevented both by encouraging adolescents to abstain from sexual relations and by providing effective birth control for those who are sexually active. In devising pregnancy prevention strategies, it is important to recognize the high rates of sexual activity among teenagers. In 1979, half of female adolescents 15 to 19 years old and 7 out of 10 male adolescents 17 to 21 years old reported having engaged in premarital sexual activity.[39] Since many pregnancies occur within the 6 months following first intercourse, effective prevention efforts—particularly in the area of family planning—would have to be directed to all teenagers, regardless of whether or not they have engaged in sexual activity.[40]

Programs that work to reduce teenage birthrates, as compared with those that provide services after pregnancy, result in substantial savings to federal and state governments. A study made in 1981 using a simulation model estimated that reducing the birthrate of teenagers under 20 years of age by one-half would lead to a 25 percent reduction in AFDC costs in 1990, while halving the birthrate of only those teenagers who are under the age of 18 would result in saving of 12 percent of AFDC costs.[41]

Considerable controversy exists as to what motivation teenagers have to avoid sexual activity and early parenthood. Some believe that many teenagers, particularly those who are poor, have no motivation to avoid early parenthood because they do not feel that education and employment opportunities offer them an alternative way of life.[42] This would indicate that at-risk populations need services that emphasize real opportunities through education and employment. Others argue that many teenagers become pregnant in order to obtain welfare (primarily AFDC) benefits. It is inherently difficult to test this hypothesis, but the evidence that does exist does not support it.[43] For example, less than one-fourth of the pregnancies occurring to teenagers who do not marry are reported as intentional. In any event, many factors have been shown to play important roles in determining teenage sexual activity and contraceptive use. These include low self-esteem and aspirations, ignorance about pregnancy and contraception, fear or embarrassment about contraceptive use, and concern about the effect of sexual abstinence or contraceptive use on the relationship.

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[37] Wertheimer and Moore, "Teenage Childbearing," p. 24. A large portion of these costs are in the AFDC program, as these women form a substantial part of the AFDC population. The rest is for Medicaid and food stamps.

[38] SRI International, "An Analysis of Government Expenditures Consequent on Teenage Childbirth," prepared for the Population Resource Center (February 1979), p. 5.

[39] Melvin Zelnik and John F. Kantner, "Sexual Activity, Contraceptive Use and Pregnancy Among Metropolitan-Area Teenagers: 1971-1979," Family Planning Perspectives, vol. 12, no. 5 (September/October 1980), pp. 230-231. This survey included only teenagers living in Standard Metropolitan Statistical Areas (SMSAs). It used different age ranges for males and females because surveys indicate that teenage women are most likely to be involved with men about two years older than they are.

[40] One study found that up to half of premarital first pregnancies occurred during the six months following first intercourse. Laurie S. Zabin, John F. Kantner, and Melvin Zelnik, "The Risk of Adolescent Pregnancy in the First Months of Intercourse," Family Planning Perspectives (1979), cited in Alan Guttmacher Institute (AGI), "Teenage Pregnancy," p. 74.

[41] Wertheimer and Moore, "Teenage Childbearing," p. 186.

[42] This is somewhat substantiated by studies finding that adolescent parents tend to have lower educational expectations, and that adolescents who have higher education and employment expectations are more likely to delay sexual activity and are less likely to have children while adolescents.

Current federal efforts to reduce the incidence of teenage pregnancy take two approaches. First, the Adolescent Family Life Program—of the Office of Adolescent Pregnancy Programs in the Department of Health and Human Services—is allowed to spend about one-fourth of its funds (approximately $3 million) for the prevention of teenage sexual relations. The prevention component of the program funds demonstration projects that focus primarily on helping parents both to educate their children on sexual matters and to encourage their teenagers to abstain from sexual relations. Second, the federal government helps finance family planning services for, among others, sexually active teenagers. Possible federal options include expanding family life education efforts and targeting family planning services toward adolescents.

Increase assistance for family life education programs

One way both to discourage teenagers from engaging in sexual activity and to encourage responsible behavior among those who are sexually active is through comprehensive education efforts, sometimes called family life education courses. Such courses teach adolescents about a number of issues they will face as young adults, including decisionmaking skills, family life, and financial management, though they generally focus on providing students with sexuality education.[44] Sexuality-education courses usually include information on sexual responsibility and family planning, as well as discussions of values and decisionmaking.

Evaluations of sexuality-education programs have found that most served to increase knowledge about issues surrounding sexuality and that such programs did not increase the incidence of sexual activity. The component of sexuality-education programs that seems most important in reducing pregnancy rates is the provision of accessible clinic services.[45] Programs with medical compo-

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[43] A number of studies have examined the hypothesis that the availability of welfare benefits causes teenagers to become pregnant. Most have found little or no evidence for this, although a few have concluded that the availability of welfare benefits could play a role in a small proportion of the total number of teenage pregnancies. There is some evidence that the availability of welfare may influence a pregnant teenager's decision about questions such as whether to raise the child, get an abortion, have the child adopted, or marry the father of the child. The specific incentives, however, depend on the specific AFDC policies of the state. Moore and Burt, "Private Crisis" pp. 107-113.

[44] The Life Planning Curriculum, offered by the Center for Population Options, is an example of a curriculum that covers a broader range of topics and does not focus only on sexuality education.

[45] Douglas Kirby, "Sexuality Education: An Evaluation of Programs and Their Effects" (Santa Cruz, Calif.: Network Publications, 1984), pp. 1-3 and 13. Similar findings are in: Melvin Zelnik

Continued

nents were found to be successful in increasing contraceptive use and substantially reducing pregnancy rates.[46]

Although the Department of Health and Human Services funded some family life education initiatives in the 1970s—through the Office of Family Planning and the Centers for Disease Control—such efforts have been largely discontinued. Current efforts are limited to the Adolescent Family Life Program, which funds a few family life education demonstration programs that focus primarily on promoting abstinence from sexual relations, and to the Department of Education, which provides schools with technical assistance in this area upon request.

Federal assistance for family life education initiatives could be expanded by providing increased financial and technical assistance for curriculum development and teacher training, as well as increased funding for evaluation and research on existing family life education programs. Such funding could be provided through the Office of Family Planning, the Office of Adolescent Pregnancy Programs, or the Centers for Disease Control, all three of which have funded such programs in the past. Given the evidence that family life education is more effective at lowering pregnancy rates when combined with a clinic and the provision of general health and family planning services, however, the Centers for Disease Control or the Office of Family Planning—both of which deal with medically or clinically focused programs—could be the most effective mechanisms.

There is little opposition to the idea of family life education, as most educators, parents, and health officials agree that it is essential to any effort to encourage sexual responsibility (and prevent pregnancy) among teenagers. Less agreement exists, however, as to the most appropriate method for delivering such education. The controversy centers around three questions: who should provide such education, what information should be provided, and to whom it should be provided. In order to develop effective programs that meet the needs and wishes of parents, students, and educators, federal efforts would have to involve substantial interaction with local communities. One approach would be to provide grants and technical assistance to local health and education agencies, allowing them to develop programs directed specifically toward the needs of their communities.

Proponents of this approach believe that teenagers should have access to information about sexuality, but feel that both parents and educators should be involved in determining the information that adolescents receive. Others think that ideally all information should come from parents, but that all teenagers deserve access to

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and Y.J. Kim, 1982, cited in Society for Research in Child Development, "Adolescent Pregnancy," Washington Report, vol. 1, no. 2, p. 8, and in Douglas Kirby, J. Alter, and P. Scales, "An Analysis of U.S. Sex Education Programs and Evaluation Methods" (1979), cited in Moore and Burt, "Private Crisis, Public Cost," p. 68.

[46] For example, the St. Paul Maternal and Infant Care project found that their school-based clinic—which provides comprehensive health services, family planning information and counseling, access to contraceptives, and pre- and postnatal services—reduced pregnancy rates by 55 percent. Laura Edwards and others, "Adolescent Pregnancy Prevention Services in High School Clinics," in Frank F. Furstenberg, Jr., Richard Lincoln, and Jane Menken, eds., "Teenage Sexuality, Pregnancy, and Childbearing" (Philadelphia: University of Pennsylvania Press, 1981), p. 373.

information and services, even if their parents do not provide it. In contrast, opponents argue that all information should come from the adolescents' parents and that the government should not be involved.

Expand access to family planning services.

Educational efforts such as those discussed above cannot effectively reduce pregnancy rates for teenagers who become sexually active unless teenagers of both sexes have access to family planning information and services. Although increasing proportions of sexually active teenagers used some form of birth control throughout the 1970s, one study found that in 1979 up to 27 percent of premaritally sexually active teenage women never practiced contraception, and another 39 percent used contraceptives only sporadically.[47] A GAO study found that many adolescent women lacked access to family planning services for a number of reasons, including poor coordination between programs, insufficient focus on at-risk populations (including adolescents), and inadequate financial resources for programs.[48] Federal funding for the major family planning programs has been reduced since the time of the GAO report, and over 60 percent of the family planning clinics reported decreases in real income.[49]

Family planning services are currently funded by Title X of the Public Health Services Act (the primary source of federal funding for family planning); the Social Services Block Grant (SSBG); the Maternal and Child Health Block Grant (MCHBG, or Title V of the Social Security Act); and Medicaid. State and local governments, patient fees, and other private sources also contribute funds to family planning.[50]

There is some controversy over the effectiveness of family planning services as a means of reducing adolescent parenthood. Proponents of the program focus on the decreasing number of adolescent births, the decreasing pregnancy rate among those teenagers who are sexually active, and the increased use of contraceptives. They suggest that both pregnancy and birthrates would be much higher without family planning services. They also argue that family planning services effectively reduce the number and rate of abortions. One study, for example, estimated that almost three pregnancies were averted for every ten teenagers enrolled in family planning in 1975. This study estimated that family planning programs averted 2.6 million unintended adolescent pregnancies during the 1970s—translating into 944,000 averted births, 1,376,000 averted abortions, and 326,000 averted miscarriages.[51] Moreover, proponents of family planning programs argue that such services are cost-effective—particularly in the case of teenagers, where each dollar invested in family planning services is estimated to save $2.90 in reduced health and welfare costs in the following year alone.[52]

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[47] Zelnik and Kantner, "Sexual Activity, Contraceptive Use, and Pregnancy," Table 7.

[48] General Accounting Office, "Better Management and More Resources Needed to Strengthen Federal Efforts to Improve Pregnancy Outcomes" (Washington, D.C.: U.S. Government Printing Office, January 1980), pp. 56–61.

[49] Funding reductions were cushioned somewhat, although not completely offset, by increased state and local funding and increased use of patient fees. Agencies experiencing a decrease in funding also reported that they reduced the number of clinic sites from 1980 levels. Aida Torres, "The Effects of Federal Funding Cuts on Family Planning Services, 1980–1983," Family Planning Perspectives, vol. 16, no. 3 (May/June 1984), pp. 134, 138.

[50] A 1984 study found the following breakdown in the proportion of funds (for family planning agencies) contributed by each funding source in 1983: Title X, 33 percent; state and local government funds, 17 percent; SSBG, 13 percent; patient fees, 13 percent; Medicaid, 10 percent; MCHBG, 7 percent; and other private sources, 7 percent. Ibid., p. 136.

Opponents of family planning services point out that both the rate of teenage sexual activity and the total number of teenage pregnancies have risen in recent years, at the same time as funding and availability of family planning services have grown. They conclude, therefore, that the availability of such services has caused the increases in adolescent sexual activity and pregnancy. There are, however, several studies that have found that the availability of family planning services has little effect on rates of sexual activity,[53] but does reduce the incidence of pregnancy and lower birthrates.

Family planning programs could be oriented toward adolescents in three ways: by targeting current federal family planning funds to adolescents; by increasing federal family planning funds and focusing the additional money on adolescent family planning services; or by creating a matching grant program to states.

The first two approaches, which would rely primarily on federal funding, could be accomplished through any of the current funding sources; for several reasons, however, such changes are probably most feasible through Title X of the Public Health Service Act. First, its primary function is to provide family planning services. Second, it can easily be targeted, as it is not a block grant. Third, the majority of teenagers who make use of family planning services obtain them through clinics—which is the primary method of service delivery under Title X.[54] Finally, it is targeted to low-income patients, and the Congress already requires programs receiving Title X funding to provide services to adolescents.[55]

The Congressional mandate could be strengthened by requiring programs to expand outreach efforts, to develop services and programs specifically oriented toward the needs of adolescents, or to change their programs in other ways to improve their accessibility for the teen population. Such targeting efforts could be particularly focused on those adolescents who are already parents, as they are likely to bear subsequent children.[56] If this targeting of services was done without a corresponding increase in funding, family planning services would necessarily have to be withdrawn from some of the nonadolescent populations currently being served. If, instead, federal funding for Title X was expanded and earmarked for serving adolescents, an estimated 1.4 million additional adolescents could be served for an additional $100 million.

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[51] J.D. Forrest, A.I. Hermalin, and S.K. Henshaw, "The Impact of Family Planning Clinic Programs on Adolescent Pregnancy," Family Planning Perspectives, vol. 13, no. 3 (1981), p. 109 Other studies— for example, Impact of Family Planning Programs on Fertility: The U.S. Experience, by Phillips Cutright and Frederick S. Jaffe (1977)—have come to similar conclusions.

[52] Mary Chamie and Stanley K. Henshaw, "The Costs and Benefits of Government Expenditures for Family Planning Programs," Family Planning Perspectives vol. 13, no. 3 (1981), p. 123.

[53] Kristin Moore and Steven Caldwell, "Out-of-Wedlock Pregnancy and Childbearing" (1976) and several other studies, cited in Moore and Burt, "Private Crisis, Public Cost" (1982), pp. 70–74. It is estimated that six out of seven teenagers who come to family planning clinics do so after they initiate intercourse. Studies have also shown that the majority of teenagers come to family planning clinics after they have been sexually active for nine months or more. Alan Guttmacher Institute (AGI), "Teenage Pregnancy" (1980), p. 44 (Figure 41), and AGI, "Public Policy Issues in Brief," vol. 4, no. 1 (March 1984), p. 1.

[54] A study by the National Center for Health Statistics found that 55 percent of the family planning visits of teenagers (ages 15 to 19) were to clinics rather than to private medical services. Furthermore, 74 percent of the family planning visits of black teenagers were to clinics. This can be compared with an overall rate of 36 percent for all women, aged 15–44. Marjorie Horn and William Mosher, "Use of Services for Family Planning and Infertility: United States, 1982" NCHS Advancedata, no. 103 (December 20, 1984), p. 3

[55] The majority of patients in Title X clinics are low-income, and are able to receive free services if they are below the poverty line. Those who are slightly better off pay on a sliding scale.

Proponents of this approach believe that family planning services should be available to all sexually active teenagers. They argue that the government has a responsibility to provide access to such services—to ensure equitable access across states, to reduce the likelihood of adverse consequences for the teenagers, and to control future welfare and health costs. Most proponents agree that parental involvement is positive and should be encouraged, but they also feel that teenagers who are unable to communicate with their parents should have access to family planning services. On the other hand, some opponents argue that family planning initiatives should come from the local level so as to best accommodate local concerns. Others feel that family planning information should come only from the parents of the teenagers and argue against any government action in the area.

The last targeting approach involves providing matching grants to the states to initiate, expand, or improve their family planning services for adolescents. The federal government could offer states incentives to improve their family planning services for adolescents by providing: federal matching grants for program development and operation expenses; capital subsidies and start-up grants for adolescent pregnancy prevention programs; and technical and financial assistance to help current programs coordinate their services or make their services more accessible to teenagers. Such funding could be provided through a grant program administered by the Office of Family Planning.

The cost of this approach—and the number of additional adolescents served—would depend on two factors: the willingness of states to expand their commitment to adolescent family planning, and the matching rate chosen. If the match was 50 percent, the federal cost would be approximately half of the previous option (or $50 million) to provide services to 1.4 million adolescents, with the remaining $50 million being paid by the states.

Proponents of this approach argue that family planning policy is best formulated on the local and state levels, so as to take into account local concerns. Some opponents believe that family planning policy should be mandated from the federal level, so as to ensure equal access across state and county lines. Others are opposed to all governmental action in the area of family planning, particularly for the adolescent population.

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[56] This population could be identified through a number of mechanisms—one being the AFDC caseload. There is, currently, a statutory requirement that all AFDC recipients (and sexually active minors in their households) must be offered family planning services. See the Social Security Act, Title IV, Section 402(a)(15).

Some evidence suggests that substantial savings could be realized in AFDC costs if the subsequent childbearing of the adolescent parent was reduced. One study estimated that welfare costs would be reduced by 17 percent in 1990 if the completed family size of teenage mothers were the same as that of mothers who delayed childbearing until their twenties. (Wertheimer and Moore, "Teenage Childbearing," pp. 73, 194-195.)

OPTIONS INVOLVING PREGNANT ADOLESCENTS AND ADOLESCENT PARENTS

Whatever efforts are made to reduce the adolescent pregnancy rate, some number of pregnancies will continue to occur. Adolescents who do become pregnant are confronted by emotionally painful decisions that can have serious consequences. They first must decide whether to have their babies or to seek abortions; if they choose to give birth, they must decide whether to raise their children or to allow them to be adopted. Those who choose to keep their children are then likely to be confronted by a number of difficulties—including diminished educational attainment and job skills—and are likely to be living in poverty.

The first decision confronting any pregnant woman—whether to have her child or abort the pregnancy—is particularly traumatic, reflecting deeply held moral judgments regarding the nature of abortion. Some people believe that all women should have the right to choose whether or not to bear children, even after they become pregnant. Others are strongly opposed to abortion, frequently because they believe it is the taking of a human life. Both positions represent strongly held beliefs concerning individual rights and morality.

The controversy and ambiguity surrounding the issue of abortion is reflected in how it is treated by the federal government. The Supreme Court ruled 12 years ago that abortion is legal, and that women have a constitutional right to abortion as a matter of privacy. On the other hand, the federal government no longer allows federal funds to be used to finance abortions except in cases in which the mother's life is endangered if she carries the pregnancy to term.[57] This action has also been ruled as constitutional by the Supreme Court. As a result of this restriction on funding, low-income women who rely on Medicaid or other federal health programs as their primary means of financing health care are more likely to carry their pregnancies to term or to delay their abortions.[58]

Two approaches could be taken to change the current legal status of abortion. Those who view abortion as a constitutional right and who maintain that the ability to exercise such rights should not depend on income argue, among other things, for allowing abortions to be financed through Medicaid. Some of those who are opposed to abortion as a matter of principle, on the other hand, contend that the 1973 Supreme Court decision should be overturned or the Constitution amended to prohibit abortions for all women. In any event, few people consider the choice concerning the appropriate legal status of abortion to be primarily an issue of childhood poverty.

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[57] Since 1981, federal funding for abortions has been limited to situations where the life of the mother was threatened. Federal funding between 1977 and 1981 was allowed in certain other situations—for example, in cases of reported rape or incest.

[58] Stanley K. Henshaw and Lynn S. Wallisch, "The Medicaid Cutoff and Abortion Services for the Poor," Family Planning Perspectives, vol. 16, no. 4, (July/August 1984), pp. 170-171.

Currently 15 states provide state funds to poor women to obtain abortion services. Access to such services is limited, however, as approximately 78 percent of all U.S. counties (accounting for 28 percent of all women aged 15-44) had no abortion provider in 1982. Access is particularly limited for women living in nonmetropolitan areas. Stanley K. Henshaw, Jacqueline D. Forrest, and Ellen Blaine, "Abortion Services in the United States, 1981 and 1982," Family Planning Perspectives, vol. 16, no. 3 (May/June 1984), pp. 119-127.

Regardless of what—if any—change may be made in the current treatment of abortion, recent experience suggests that a large number of teenagers will continue to become pregnant and that many of them will choose to give birth. Two sorts of federal options are available to help these adolescents:

—Providing teenagers with information concerning adoption as an alternative for their children; and

—Providing services for teenagers who choose to raise their children themselves, to limit adverse consequences for both the mothers and their children.

Expand access to adoption services

Although national data on adoption do not exist, and very little research has been done in this area, there is some indication that teenage mothers do not often choose to have their children adopted or raised by others. Furthermore, it appears that they may be less willing to take this route than they were in the early 1970's,[59] although there does not appear to be any shortage of families willing to adopt healthy infants—minority or nonminority.

The federal government has recently expanded efforts to make adoption a viable alternative for teenagers. Adoption opportunities are a priority of the Adolescent Family Life (AFL) Act, through which the federal government funds demonstration programs, which generally include adoption components, and a few research projects focusing on adoption. A limited amount of additional funding for adoption assistance, although not focused on adolescents, is provided through the Adoption Opportunities Program to projects facilitating the adoption of "special needs" children. Special needs children are defined as those who have specific conditions making it difficult for them to be placed in an adoptive home. The specific definition is determined by the state but generally includes conditions such as ethnic background, age, membership in a sibling group, or mental or physical handicap. Finally, some funding from the Social Services Block Grant is used for general adoptive services, although few data exist as to the size and scope of state efforts in specific social service areas. For lack of information, and because many of these projects were begun recently, it is impossible to assess the impact of these federal policies on the use of adoption by adolescent mothers.

The federal government could increase its funding of any of these programs, as well as direct additional funding to projects that stress the importance of facilitating the adoption of the children of teenage mothers. For example, funds could go to projects that develop outreach programs for teenage mothers and provide counseling services. Such efforts would probably be most effective through either the Adolescent Family Life Program or the Adoption Opportunities Program, as these include specific adoption components and are not block grants.

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[59] Approximately 96 percent of all unwed teenage mothers in 1976 (90 percent of white unwed teenage mothers and almost 100 percent of black unwed mothers) were estimated to have kept their children rather than allowing them to be adopted or raised by others, as compared with 75 percent of whites and 94 percent of blacks in 1971. Zelnik and Kantner, "First Pregnancies to Women Aged 15-19, 1976 and 1971," Family Planning Perspectives, vol. 10, no. 11 (1978), Tables 5 and 11, cited in Alan Guttmacher Institute, "Teenage Pregnancy," p. 74.

The federal government could also require that all federally funded family life education and family planning programs provide information and counseling on adoption. This option could be included in a broader effort to increase the availability of family life education and family planning programs (for example, the options presented earlier in this chapter) with little or no additional cost. The federal government could allocate a small amount of funds for technical assistance and staff training on adoption issues.

Increased funding of research and data collection on adoption issues could improve the development of future adoption policy. Information on the incidence of adoption, the characteristics of families who adopt and of those who have their children adopted, the characteristics of children who are and are not adopted, and the determinants of adoption are all important in order to develop policies that would expand adoption opportunities for young mothers. Continued funding of carefully designed demonstration and research projects, and efforts to disseminate the evaluation findings, would be important in order to evaluate fully these efforts.

Provide comprehensive services to adolescents who choose to raise their children.

Adolescent parents who choose to raise their children themselves are likely to experience a number of problems—including inadequate education, medical problems, large family size, and welfare dependency. Given the scope and complexity of their difficulties, it is not surprising that most experts agree that these teenagers need programs with a comprehensive approach. The following section describes what is known about existing comprehensive service programs for adolescent parents, discusses two possible approaches to encourage the development of such programs, and then examines two ways of targeting services to specific groups of teenage parents.

Several current demonstration programs try to reduce the economic dependence of teenage parents by helping them obtain comprehensive services such as education, support services (such as child care), medical and nutritional services, employment and training opportunities, and family planning services. Types of programs include those that provide the services directly as well as those that work to ensure that their clients have access to the variety of services available in the community.[60]

Although evaluation results vary across the different programs, some comprehensive programs have improved pregnancy and health outcomes for adolescents and their babies by providing them with timely prenatal care; have helped teenagers remain in school during pregnancy; and have increased the likelihood that adolescents will return to school after delivery.[61] Less evidence is available on the long-term educational and employment benefits of these programs, and continuing evaluations are necessary.[62]

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[60] An example of a program providing direct services is the St. Paul Maternal and Infant Care Project, which provides primarily school-based services, including health care, child care, social services, nutrition education, parenting skills, family planning, and family life programs. See Edwards and others, "Adolescent Pregnancy Prevention Services in High School Clinics" (1981).

A program that helps teenagers have access to services is the Parents Too Soon program in Illinois, which coordinates the services of 10 state agencies and targets them toward children between the ages of 11 and 20 who are at risk of becoming parents as adolescents.

Current federal support of comprehensive service programs is largely limited to the Adolescent Family Life Program. Demonstration projects for pregnant adolescents and adolescent parents funded by this program must provide either a variety of services or access to such services, including a number of medical and nutritional services, as well as family planning, educational services on sexuality and family life, educational and vocational services, and adoption counseling.

Additional funding could be directed to develop comprehensive service programs in two ways. The first approach would expand the current efforts of the Adolescent Family Life Program. In 1985, the federal government funded approximately 40 comprehensive service programs directed solely toward adolescents who were pregnant or parents, at a cost of approximately $6.5 million. Current efforts could be doubled with an additional $6 million to $8 million.[63]

A second approach would be to expand the role of the Office of Adolescent Pregnancy Programs in encouraging the development of comprehensive service programs by the states. For example, state efforts to develop programs in this area could be fostered by substantially increasing the levels of financial and technical assistance. Moreover, this office could serve as a clearinghouse for information on comprehensive service strategies for pregnant and parenting adolescents. Some states have already worked together to share their strategies, and federal aid could foster such efforts.[64]

Although these service programs are comprehensive, they nonetheless can focus on specific populations, types of services, or goals. Two types of targeted comprehensive service programs are discussed below. Either could be particularly effective in reducing the poverty of teenage mothers. The first works to prevent adolescents from dropping out of school through providing services that facilitate school attendance; the second works to provide comprehensive services to adolescent mothers on AFDC—a population at high risk of long-term dependency.

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[61] For example, the Too-Early-Childbearing (TEC) Network of programs has found that participants in their programs have substantially reduced subsequent birthrates, and have higher educational status one year postpartum than do women in local and national comparison groups. "TEC Network Newsletter," Number 2, July 1984. For additional information and evaluation results, see B. Zuckerman, D. Walker, D. Frank, and C. Chase, "Adolescent Pregnancy and Parenthood: An Update," in Advances in Developmental and Behavioral Pediatrics, vol. VII (Connecticut: JAI Press, in press).

[62] One difficulty is that even women who have full-time jobs that pay the minimum wage can be poor, depending on the size of their families. Therefore, even programs that successfully help teenage mothers obtain the education and training necessary for employment, and which place these mothers in jobs, do not guarantee that the families will be above the poverty line.

[63] An additional 14 programs combining "care" services (directed toward adolescents who were pregnant or parents) and '"prevention" services (directed toward all adolescents) were funded in fiscal year 1985 at $2.9 million.

[64] For example, in March 1985, human services officials from 13 states met with representatives of the Ford Foundation, the Manpower Development Research Corporation, and the American Public Welfare Association in a Forum on Adolescent Pregnancy and Parenting Issues. The meeting discussed a number of state and local efforts in this area, and exchanged information and strategies.

Expand school-based services

Teenage parents are more likely to drop out of school than are their peers who have delayed childbearing. As a result, many of them have an inadequate education, which severely limits their future earning ability and, in turn, increases their likelihood of being poor. For example, one study found that although teenage mothers who completed high school were more likely to be receiving welfare than women who delayed childbearing, they were less than half as likely to be dependent on welfare than were those adolescent parents who had dropped out.[65]

School-based service programs that provide access to child care and to other supportive services can reduce dropout rates after pregnancy.[66] Such services can be particularly effective for teenagers who have some motivation to continue their education, and who need services in order to be able to graduate. But access to services alone is inadequate for adolescents who drop out before their pregnancy, and for those who are underachievers or are unmotivated to attend school. Programs that work to help these adolescents resolve their initial difficulties with school are likely to be more effective in maintaining school attendance. Some argue that such programs must be made more intensive (and more comprehensive) in order to affect these underlying problems.

Even for highly motivated adolescent parents, access to child care and to other supportive services is necessary if they are to continue in school. A 1979–1980 national survey of the services for, and needs of, teenage parents found that child care was the most commonly reported unmet need.[67] Such services can either be provided by the school directly, or schools can serve as "brokers" of service—putting the teenage mother in contact with resources in the community and facilitating her use of those resources. Few schools currently have such programs, as they have little incentive to initiate programs without strong leadership from educators and the federal and state governments.[68]

The federal government could, either through increased funds for the Office of Adolescent Pregnancy Programs or through child care funding mechanisms, help schools and private organizations provide subsidized infant and toddler care (or access to subsidized child care) and other support services for teenage parents attending school.[69] It could provide start-up funds, technical assistance, and training to schools to encourage them to provide comprehensive services, or to act as "service brokers." This could be targeted to schools in areas with high rates of teenage births and high dropout rates. Furthermore, additional financial assistance could be provided, on a matching rate basis, to cover operating costs for school districts that face financial difficulties in running such programs—for example, districts that have a large proportion of low-income students. Research and evaluation efforts could be a central part of any such funding to determine program effectiveness—particularly in the development of schools as service brokers, as little is known about the effectiveness of this strategy.

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[65] Moore, "Teenage Pregnancy and Welfare Dependency" (1978), p. 234.

[66] For example, the St. Paul Maternal and Infant Care project found that a combination of a school-based clinic (providing comprehensive health and family planning services as well as pre- and postnatal services) and a school-based child care center resulted in a decrease in the dropout rate after delivery from 45 percent in 1973 to 10 percent in 1976. Edwards and others, "Adolescent Pregnancy Prevention in High School Clinics," p. 375.

Teenage mothers in several programs appear to have higher educational status 1 year after giving birth than do women in comparison groups. Zuckerman and others, "Adolescent Pregnancy and Parenthood" (in press).

[67] Helen W. Wallace, John Weeks, and Antonio Medina, "Services for and Needs of Pregnant Teenagers in Large Cities of the United States, 1979–80," Public Health Reports, vol. 97, no. 6 (November–December 1982), p. 587.

[68] Gail L. Zellman, "Public School Programs for Adolescent Pregnancy and Parenthood: An Assessment," Family Planning Perspectives, vol. 14, no. 1 (January/February 1982), pp. 20–21.

[69] See Chapter VI for a discussion of federal options in the area of child care.

Proponents of this approach point to the previously cited evidence that both school-based and other programs providing special services to adolescent parents are associated with reduced dropout rates. Furthermore, they argue that adolescents come into contact with the school more frequently than with any other institution. Therefore, they maintain, schools are the logical place to locate efforts to minimize the negative consequences of adolescent childbearing, as well as to prevent adolescent pregnancy in the first place. They also believe that the federal government should take an active role in fostering service programs to ensure that most teenage mothers have access to education.

Opponents of school-based service programs believe that schools should not be engaged in providing services to students, as they feel it detracts from the primary goal of the school system—which is basically academic training. They feel that school staff are not trained appropriately for such efforts, have sufficient responsibilities already, and may be less effective as educators if given additional responsibilities.

Develop comprehensive services linked to the AFDC program

As discussed previously, adolescent parents on AFDC are particularly at risk of long-term poverty. Teenage parents who receive AFDC benefits are thus of particular concern—both because of the cost in terms of their quality of life, and the cost of current and future public expenditures to support them and their families.

The current role of welfare offices in referring clients to other agencies for services that are not provided through the AFDC system could be expanded.[70] For example, all AFDC offices that serve at least some minimum number of adolescent mothers could be required to have at least one caseworker who specializes in the problems facing them. This caseworker would help adolescent parents obtain a range of necessary services—for example, subsidized care for infants and toddlers and dropout prevention services. Given that these clients are already being served, this requirement would merely represent a shifting of resources and would require minimal additional funds.[71]

Proponents of this approach point out that it would direct services toward those who are at the highest risk of long-term dependency, and would help these families become self-sufficient. They argue that it would be an efficient use of the current system of social services, as it would work to link adolescent parents to the current network. It would also, they suggest, encourage welfare offices to identify areas in which the services available to this population are inadequate—information that is currently not available.

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[70] For example, there is currently a statutory requirement that all AFDC recipients and all sexually active minors in the AFDC household be offered (and provided access to) family planning services. Acceptance of family planning services is, however, to be entirely voluntary on the part of the recipient. There is no information as to the extent of state efforts in this area. It is thought that states may refer clients to clinics funded through Title X or the SSBG. See the Social Security Act, Title IV, Section 402 (a)(15).

[71] Some additional funds could be necessary for initial training.

Some opponents of this approach argue that it would increase federal involvement in state policy decisions, while others argue that targeting scarce services to adolescent mothers might require that they be withdrawn from other AFDC recipients who are also in need. Some of these latter opponents maintain that available services are limited, and the efforts should focus more on increasing them.

CHAPTER VI. OPTIONS TO IMPROVE EMPLOYABILITY

The long-run well-being of children in poor families depends heavily on the ability of adults in those families to obtain jobs that pay adequate incomes. Family members who are able to work might not possess appropriate labor market skills and might have difficulty arranging for child care. This chapter presents options for meeting each of these needs, first addressing issues of employment and training, and then turning to the question of child care.

EMPLOYMENT AND TRAINING

The federal government currently spends about $4 billion a year on employment and training programs for people in low-income families. Most of the funds go to programs authorized by the Job Training Partnership Act of 1982 (JTPA), which provides economically disadvantaged people, including welfare recipients, with training and other assistance intended to increase their employability and future wage rates. The federal government also provides such services through the Work Incentive Program (WIN), which is specifically focused on recipients of Aid to Families with Dependent Children (AFDC). Finally, the Targeted Jobs Tax Credit (TJTC) subsidizes the wages of several groups of disadvantaged workers, including welfare recipients.

Rather than directly raising the standard of living of children and their families (as is the case with cash or in-kind transfers), employment and training programs are intended to do so indirectly by making the adults more attractive to employers, thereby raising their long-term earnings. In short, it is an investment strategy.

The key issue is whether the investment will pay off. Benefits of the investment could be in the form of immediate or long-term increased employment and earnings for participants. A related benefit would be to reduce the participant's dependence on welfare. The increased employment of the participants would not necessarily reflect increases in total employment, however. One result of an employment and training program could be to cause employers to substitute the participants for other workers—reordering hiring queues.[1] Even if total employment were not increased, though, it might be desirable to redistribute job opportunities toward members of poor families with children.[2]

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[1] Longitudinal data on the employment and earnings experiences of program participants and comparable nonparticipants have been used to estimate the effects of employment and training programs on the participants. For example, see the Congressional Budget Office and National Commission for Employment Policy, "CETA Training Programs—Do They Work for Adults?" (July 1982). These data, however, cannot indicate whether (or to what extent) gains in employment and earnings for the participants were at the expense of losses to nonparticipants.

[2] Reordering the hiring queue might be worthwhile, for example, to reduce the chances that those people who have been jobless for a long time might become increasingly less employable—

Continued

Another critical issue is whether to use employment and training funds to provide a large number of poor parents with a small amount of assistance or, alternatively, to concentrate the funds on a small number of people. Resolving this issue would help to determine which people to serve, as well as how to assist them. Individuals with severe problems might require more expensive assistance than others. Similarly, there is evidence that intensive—and expensive—employment preparation activities are more likely than other approaches to result in lasting earnings gains for program participants. Given the large number of poor people unable to find work and the tight budgetary environment, this is an especially difficult issue to resolve.

In addition to employment and training programs, the federal government might expand employment opportunities for some members of poor families with children by removing barriers to their employment. For example, government regulations that prohibit employers from offering lower wages could be relaxed or eliminated. The basic tradeoff with respect to poor families is that expanding the number of low-paid jobs this way might also reduce the earnings of previously employed parents whose wage rates could fall. Discrimination by employers is another barrier limiting job opportunities for some of these individuals. Reduction of discrimination involves equal employment laws and both private and public efforts to enforce them.[3]

Two sets of options are examined in this section. The first would increase the employability of members of poor families with children by expanding their training opportunities—either through the JTPA or through a new program. The second would increase their employment opportunities—either through a targeted employment subsidy or through other policies that could increase total employment for low-wage workers, such as a reduction in the minimum wage.

An issue not addressed in this chapter is whether to require welfare recipients to participate in employment and training activities as a condition of eligibility for AFDC. An option to require all states to implement workfare for employable AFDC recipients is discussed in Chapter III.

INCREASE TRAINING OPPORTUNITIES FOR AFDC RECIPIENTS

Title II-A of the JTPA authorizes block grants to states to provide training services for disadvantaged youth and adults. It requires that AFDC recipients be served on an "equitable" basis—that is, in proportion to their share of the total eligible population. The program is operated locally with funds from the federal government and in accordance with rules concerning eligibility criteria, permissible activities, and other matters specified in the legislation. Data for the first 9 months of the program's existence (Octo-

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either because potential employers would be deterred or because the individuals would lose skills, work habits, or motivation. The evidence on this "scarring" phenomenon is inconclusive. See, for example, National Commission for Employment Policy, "Expanding Employment Opportunities for Disadvantaged Youth," Fifth Annual Report (1979), pp. 68–69.

[3] It would be difficult to measure the effects on the incomes of poor families with children that might result from additional expenditures on antidiscrimination activities.

ber 1983 through June 1984) indicate that approximately 120,000 (or 20 percent) of the 600,000 participants served were AFDC recipients. In the current fiscal year, grants to states authorized by Title II-A are expected to total $1.9 billion, providing 1.2 million disadvantaged individuals with training and related services.

Expand the Job Training Partnership Act

One option for increasing employment and training assistance for members of poor families with children is to increase total funding for JTPA training, with the increment earmarked for AFDC recipients. For example, with no changes in per participant costs, adding $100 million to the block grant program would permit at least an additional 50,000 AFDC recipients to participate, an increase of over 40 percent.[4]

Based on analyses of the training programs for adults authorized under this program's predecessor—Title II-B of the Comprehensive Employment and Training Act (CETA)—there is reason to anticipant that the earnings of participants with little previous work experience would be increased. For example, one study concluded that CETA increased by about $2,500 per year the earnings of women who had no recorded work experience during the preceding 5 years, double the gains for similar women with some work experience.[5] It is possible, however, that some of the increased earnings for program participants is due to differences in motivation between them and nonparticipants.

A related option would be to encourage program operators to provide more intensive training and other employment preparation. Experience under CETA suggests that gains in earnings are likely to be positively related to the length of training. Thus, giving additional incentives to program operators to enroll AFDC recipients with limited work histories and to provide recipients with supportive services (especially child care) and longer courses might increase the net impact of the program, but at higher costs per participant.

The major argument in favor of expanding JTPA funding for members of poor families with children is that it offers a means of helping some of them to increase their long-term earnings, thereby improving the well-being of participants and their families, while reducing future welfare costs. The major argument against doing so is the cost, although some are concerned about the effectiveness of the program as well. In addition, given that JTPA is a new program, it can be argued that expansion should be delayed until its effectiveness has been demonstrated. Moreover, local program operators were quite critical of the frequent changes in JTPA's predecessor and have welcomed a period of stability in the new program.

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[4] The average cost is about $1,600 per participant. It is likely, however, that the cost per AFDC recipient would be higher.

[5] Congressional Budget Office and National Commission for Employment Policy, "CETA Training Programs—Do They Work for Adults?" (July 1982), p. 26. In this analysis, individuals were classified as having had "some work experience" if they had any earnings reported to the Social Security Administration between 1970 and entry into the program 4 or 5 years later. The average federal cost per participant in CETA comprehensive training programs in 1980 was about $2,400. The majority of women's earnings gains were due to increases in the amount of time worked rather than to increase in their wage rates.

Develop a program of closely supervised work experience

Another option is to develop a new national program that would provide closely supervised work experience for AFDC recipients. This option would be the most costly per participant because it is aimed at increasing the long-term employment and earnings of AFDC recipients who require more assitance than is being provided through JTPA. The National Supported Work Demonstration provided strong evidence that a carefully constructed, intensive program of supervised work experience can be effective in increasing the earnings of women who are long-term AFDC recipients.

To be eligible for this demonstration program, an individual had to have been on AFDC continuously during the preceding 3 years and to have spent no more than 3 months of the past 6 months in a regular job. Participation was limited to women whose youngest child was at least age 6. Most of the participants had not had a full-time job for at least 2 years (if ever), were members of a minority group, and had not graduated from high school.

The program consisted of an average of nine months of closely supervised work experience in which the demands on the participants and the standards of performance were steadily increased until they were similar to those of normal low-skilled jobs. This training resulted in substantial improvement in the post-program earnings of the participants. For example, over a year after leaving the program, the average earnings of participants were almost 50 percent higher than those of a similar group who had not participated: $248 per month compared with $168 for the control group. Moreover, the program participants were receiving $56 less from welfare and food stamps than were members of the control group.[6]

Given the high cost of this training (over $8,000 per participant) and the rules and incentives under which JTPA operators function, it is unlikely that it could be provided through the regular JTPA delivery system. It could, however, be authorized as a separate national program, analogous to the Jobs Corps, which provides intensive training and related services to severely disadvantaged youth.

Such an option could make a substantial difference in the lives of the participants and their families by increasing their long-term earnings and reducing their dependence on welfare. Drawbacks of this approach are its cost and the difficulty of starting a new program. The costs per participant were much higher than those of JTPA and other programs. Thus, for a given outlay, far fewer people could be served. For example, the illustrative $100 million JTPA outlay would serve only 12,500 in Supported Work compared with at least 50,000 under JTPA. Moreover, it is not known whether the positive impacts estimated in the demonstration project could be replicated if it were implemented on a larger scale. Therefore, if this option were chosen, gradual buildup would be prudent.

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[6] Stanley Masters and Rebecca Maynard, "The Impact of Supported Work, on Long-Term Recipients of AFDC Benefits" (New York City, NY: Manpower Demonstration Research Corporation, 1981), pp. 65 and 113.

INCREASE THE DEMAND FOR LOW-PAID LABOR

An alternative approach is to increase job opportunities for AFDC recipients by subsidizing their wages or by removing barriers that prohibit employers from offering lower wages rates. This approach focuses on the demand side of the market rather than on directly increasing skills.

Targeted Jobs Tax Credit

The Targeted Jobs Tax Credit (TJTC) provides private employers with a tax incentive to hire economically disadvantaged youth, recipients of specified cash transfer programs (including AFDC, Supplemental Security Income (SSI), and general assistance), and members of other designated groups. The maximum credit per subsidized worker is $3,000 for the first year of employment (50 percent of up to $6,000 in wages) and $1,500 for the second year (25 percent of up to $6,000).[7] In 1984, the average revenue loss per program participant—and, hence, the average net saving to employers—was between $700 and $1,000.[8] Under current law, the credit will be unavailable for workers hired after December 31, 1985.

One option for the Congress would be to reauthorize the TJTC subsidy for AFDC recipients.[9] This subsidy would encourage employers to hire members of this group. Moreover, to the extent that the subsidized workers' gains in earnings were not fully offset by higher taxes and lower transfer receipts, their incomes would be increased. If one-third of the subsidized jobs were assumed to be net gains for the target group, then the cost for each job created would be between $2,000 and $3,000.[10]

The amount of forgone federal revenues attributable to the TJTC in 1985 (the last full year for which TJTC is authorized) will be approximately $400 million. Since AFDC recipients account for about 15 percent of all subsidized workers, the revenue loss for this group would be about $60 million, assuming that the average subsidy for AFDC recipients equals that of all TJTC-subsidized workers.[11]

If the Congress wanted to increase the use of TJTC or another employment subsidy targeted toward adults in poor families with children, it could either broaden the eligibility criteria or increase the incentive provided to employers. The criteria could be changed, for example, to encompass all low-income adults, all members of poor families with children, or all people in families eligible for AFDC rather than only the recipients. Any of these changes would increase the size of the eligible population and would probably increase the willingness of employers to participate. Incentives could be increased by raising either the $6,000 wage ceiling or the percentage of covered wages for which a credit could be claimed. Other methods to increase use of the credit would involve making it refundable, expanding the number of eligible employers to include public sector and nonprofit organizations, and increasing outreach efforts by the Employment Service.[12]

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[7] Because the tax deduction for wages paid by an employer is reduced by the amount of the credit allowed, the net saving to an employer (and, consequently, the tax expenditure) is less.

[8] Data from a 1981 survey indicated that the average TJTC-subsidized job held by youth lasted only 15 weeks and paid approximately the minimum wage. Thus, the wage for which a credit could be claimed would be about $2,000 and the credit would equal $1,000. The revenue loss would then depend on the employer's tax bracket. No information is available on job duration and wage rates of TJTC-subsidized adults. It is likely that their wages would be higher.

[9] Current regulations define eligible recipients as individuals who continually received AFDC payments during the 90 days immediately prior to being hired or who were hired through the Work Incentive Program.

[10] Congressional Budget Office, "The Targeted Jobs Tax Credit" (Staff Memorandum, May 1984).

[11] No information is available for separately identifying the tax expenditure made for each recipient group.

The employment subsidy approach, however, has one major limitation: although it lowers the cost to employers of hiring workers, it does not necessarily increase workers' skills. Thus, it is not likely to be useful for adults who have severe labor market handicaps. Moreover, there is no information available about whether the work experience that participants gain increases their subsequent employment and earnings. In addition, the cost of an employment subsidy that operates through the tax system is difficult to control and, in fact, the subsidy may be paid to employers for hiring individuals they would have hired anyway. It also makes the tax code more complicated, although it is easier for employers to use it than to deal with a separate program.

Remove barriers to employment

Another way of lowering the cost to firms of hiring low-paid workers is to remove barriers that prohibit employers from offering lower wage rates. One prominent example of such a barrier is the minimum wage established by the Fair Labor Standards Act.[13] A reduction in the minimum wage (currently $3.35 per hour) would likely increase total employment at no cost to the federal government. Additional members of poor families with children presumably would find jobs as a result of the increase in demand. In that sense, a reduction in the minimum wage is analogous to an employment subsidy.

The additional jobs created by this approach would be likely to increase the incomes of some families. The incomes of others would likely decrease, however, as a result of the reduction in wage rates of some who already have jobs at the minimum wage. It is not clear what the net effect would be on poor families with children.[14]

Moreover, targeting specific groups with this approach is more difficult than it is with employment subsidies such as the TJTC. One option that has many advocates is to introduce a youth differential into the minimum wage legislation. This could, however, reduce job opportunities for adult welfare recipients and other adults with low incomes.

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[12] Low participation by employers has been a persistent problem in the operation of targeted employment subsidies. In 1982, for example, only about 10 percent of firms used TJTC. There is some evidence that job seekers are reluctant to inform prospective employers of their eligibility for a subsidy because this information might stigmatize them. If firms not now using TJTC were contacted by the Employment Service, told about how the program works, and asked to accept program referrals, the Congressional Budget Office estimates that up to one-third of these firms could be persuaded to do so. See Congressional Budget Office, "The Targeted Jobs Tax Credit" (Staff Memorandum, May 1984).

[13] Other examples of federal legislation that tend to maintain wage rates higher than might otherwise be paid include the Davis-Bacon Act, the Walsh-Healey Public Contracts Act, and the Contract Work Hours and Safety Standards Act. Each of these laws regulates the wages that certain federal contractors must pay. No information is available concerning their effects on the incomes of poor families.

[14] An extensive review of the Fair Labor Standards Act was conducted by the Minimum Wage Study Commission. Their findings appear in a seven-volume report, "Report of the Minimum Wage Study Commission" (May 1981). Research on the effects of the minimum wage on employment is reported in Volume V. Research on its effects on poverty and on the distribution of income is reported in Volume VII.

CHILD CARE

Access to affordable, adequate child care is essential in order for some low-income families—particularly those headed by a single parent—to be able to work. Furthermore, adequate child care (whatever its form) is important for the well-being of children whose parents must work.[15] Parents who do not have access to adequate child care services must make a difficult choice. They can either stay at home with their children, thereby reducing their ability to work and their income (and increasing their likelihood of dependency), or they can work, in which case they must place their children in inadequate care or leave the children to care for themselves.

In recent years, as women with children have entered the workforce in increasing numbers, the demand for child care services has increased dramatically. In 1970, for example, 39 percent of children under the age of 18 had mothers who worked; by 1984, this proportion had risen to almost 56 percent. Morover, many women with very young children now work. In 1984, 48 percent of children under 6 years of age had working mothers, while almost half of all married women with children aged 1 year and under were employed. The increase in labor force participation has been most dramatic among married mothers, rising from 40 percent in 1970 to 59 percent in 1984. Furthermore, more than 70 percent of employed mothers work full time.[16]

Information about the supply and use of child care services is, however, less clear. Because the child care system in the United States is diverse and fragmented, such data are difficult to collect. For example, child care can take a number of different forms—including center-based child care, family day homes, a relative or friend who comes to the home, and school-based care. Moreover, families frequently use more than one of these forms. The collection of comprehensive data is made more difficult by the wide variation in the level of regulation of child care programs (both among different forms of child care and among geographic areas). It appears that most children are cared for in unregulated settings, which makes data particularly hard to collect.

Although comprehensive national data on the use of and need for child care are not available, local and statewide studies provide information on the problems some families face in trying to obtain acceptable child care. Three factors can limit access to child care: inadequate supply of services, inadequate knowledge about available services, and inability to pay for services. Any one of these factors can make it difficult for families to obtain child care—and some families are likely to face difficulties in more than one area.

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[15] Although child care is presented in this section as a service that helps low-income families become self-sufficient, it may also be important as a mechanism to provide developmental and educational experiences to young children. This latter focus is not discussed extensively in this section.

[16] Howard Hayghe, "Working Mothers Reach Record Number in 1984," Monthly Labor Review, vol. 107, no. 12 (December 1984), pp. 31-33.

For example, an adequate supply of child care is useless if the care is not affordable or the parents do not know about it. Because of the previously mentioned inadequacies in the data, it is difficult to determine which (if any) of these factors is of paramount importance. It seems likely, however, that they are of varying importance for different families and in different geographic areas.

Some mothers report that inadequate child care has limited their participation in the labor force (this is particularly the case for those who are young, black, single, poor, and less educated).[17] Parents also report in national and local surveys that they would work more if they had access to acceptable child care. For example, a 1982 Bureau of the Census survey found that 26 percent of those mothers who were not in the labor force said that they would be looking for work if they could find satisfactory and affordable child care—a percentage that rises to 36 percent of those women whose annual income is below $15,000, and to 45 percent of single mothers. Furthermore, 21 percent of mothers who worked part-time said they would work more hours per week if they could find such care.[18]

Critics have argued, however, that these studies do not accurately measure the number of parents who would actually work if child care were available; they also argue that the information is self-reported, and attitudes do not necessarily reflect behavior. They maintain, therefore, that there is no evidence that participation in the labor force is hampered by inadequate child care.[19]

Additional surveys, most done on the state or local level, have found that some families are dissatisfied with the care they use—usually because of its cost or quality.[20] Other studies have found that many centers have waiting lists, indicating an inadequate supply of affordable or acceptable center-based care.[21]

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[17] Harriet B. Presser and Wendy Baldwin, "Child Care as a Constraint on Employment: Prevalence, Correlates, and Bearing on the Work and Fertility Nexus," American Journal of Sociology, vol. 85., No. 5, (1980), pp. 1202 and 1205. See also U.S. Commission on Civil Rights "Child Care and Equal Opportunity for Women," Clearinghouse Publication No. 67 (June 1981).

[18] Department of Commerce, Bureau of the Census, "Child Care Arrangements of Working Mothers: June 1982," Current Population Reports, Special Studies Series P-23, No. 129, pp. 15-19. This figure includes only those women who have a child under five years of age.

Other surveys, done at the community level, have found similar results. For example, a study in Maine found that 28 percent of the parents surveyed reported that they had been prevented from taking promotions, were forced to quit their jobs, or were unable to continue training or education as a result of problems with child care in the past five years. Moreover, 27 percent of nonworking parents surveyed said they would definitely work, and 18 percent of working parents said they would definitely work more, if they were able to obtain adequate, affordable child care. Report and Recommendations of the Maine, Child Care Task Force, "Child Care in Maine: An Emerging Crisis" (report submitted to the Maine Department of Human Services and the Maine Department of Educational and Cultural Services November 1984), p. 88.

[19] For example, the Deputy Assistant Secretary for Social Services Policy at the Department of Health and Human Services said in 1984 that there was no clear evidence that a lack of child care prevented women from working (especially welfare mothers), and that there is no evidence of a shortage of affordable child care. Select Committee on Children, Youth, and Families, "Families and Child Care: Improving the Options" (September, 1984), p. 32.

[20] The Oakland Community Child Care Impact Committee, "Report of the Oakland Community Child Care Impact Committee" (October 9, 1984), Appendix, pp. 11-12. Note, however, that it is difficult to get accurate data on parental dissatisfaction, as parents who are unhappy with the quality of the child care they use are often unwilling to admit their concern.

[21] For example, a survey in Oakland, California, found that two-thirds of its centers have waiting lists; and the Governor's Day Care Partnership Project in Massachusetts found that families on waiting lists have to wait on average from 6 months to a year. See "Report of the Oakland Community Child Care Impact Committee," p. 38; and the Governor's Day Care Partnership Project, "Report Submitted to Governor Michael S. Dukakis" (October 1984), p. 3.

Finally, the "latchkey" phenomenon, where young children are left alone to care for themselves or in the care of slightly older siblings, has been of much public concern recently. Once again, data on such children are inadequate, and estimates of the number of children who care for themselves range widely.[22] Several local surveys found evidence of children in self-care. The School-Age Day Care study, for example, estimated that one-fourth of school-age children of working parents in Minnesota and Virginia cared for themselves regularly.[23] A 1983 survey of families in Montgomery County, Maryland, found that 21 percent of all parents reported that they regularly left their children below the age of 14 either alone or in the care of siblings (also under the age of 14). At the same time, 42 percent of all households where all adults worked full time reported that they left their children in self- or sibling-care.[24] Although the data on the number of latchkey children from the various state and local surveys are not comparable, many of the estimates fall between 14 percent and 21 percent of all children of working parents.[25]

If the federal government decides to facilitate the self-sufficiency of low-income families by expanding their access to child care services, three strategies are available:

—Expand the supply or availability of child care;
—Broaden knowledge about the available resources; and
—Lower the cost of the services.

Options for each approach are discussed in the remainder of this chapter, although many alternatives would employ more than one strategy.[26] In each of the following option sections, federal efforts could be targeted to areas of particular concern. They could focus on the access to child care services for different age groups of children (infant care, preschool care, or school-age care); on different locations (in-home care, family day homes, center-based care, or school-based care); or on different populations of parents (teenage mothers, families with a wage earner in training, or single-parent families). All three strategies could be pursued through direct spending programs, while the income tax system could be used to enhance demand for privately supplied services by lowering the costs of care.

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[22] Select Committee on Children, Youth, and Families, "Families and Child Care: Improving the Options," p. 24.

[23] Department of Health and Human Services, "School-Age Day Care Study: Final Report" (March 15, 1983), p. 6.

[24] Montgomery County Department of Family Resources, "A Study of Needs and Resources for Child Day Care in Montgomery County" (September 1983), pp. iv, 19, 20 and 26. The percentages also varied along other dimensions. For example, of those parents reporting that they left their children in self- or sibling-care, none did so with children under 6 years of age, 17 percent left children between 6 and 8 years of age in self- or sibling-care, 30 percent used this form of care for 9 to 11 year olds, and the rest had children who were 12 or 13 years old.

[25] These surveys are not easily compared. They examine slightly different age groups, have different definitions of "regular" care. and use different methodologies, thus making it difficult to develop an accurate estimate of the number or proportion of latchkey children.

[26] Some of the options directed toward increasing the supply of child care would also affect the affordability of the care and knowledge about the care. The options in each area are likely to have effects on the other areas as well.

OPTIONS TO INCREASE THE SUPPLY OF CHILD CARE PROGRAMS

The federal government could provide funding to states and nonprofit organizations to encourage the development of affordable child care programs that serve moderate- and low-income children. Such grants could be used to:

—Provide incentive grants for the development and operation of targeted child care programs; and

—Fund umbrella organizations that would provide training, monitoring, financial assistance, resource sharing, and other benefits to providers of family day home services.

Some general arguments apply to both of these approaches. Their proponents believe that there is an inadequate supply of affordable child care programs for low-income parents and that federal action should be taken to foster the development of such programs. They argue that it is in the federal government's interest to fund such programs, as they allow low-income families to become productive and self-sufficient and can provide important developmental experiences for poor children. Some opponents do not believe that there is sufficient proof of a shortage of adequate and affordable child care and therefore feel that federal action is unnecessary, especially in a time of federal budget stringency. Other critics maintain that these grant programs would result in unevenly distributed programs, since not all states would take advantage of federal aid.

Provide incentive grants for the development and operation of targeted child care programs

The federal government could foster the development and operation of targeted child care programs by funding grants for child care. The 98th Congress authorized (but did not appropriate) $12 million in 1984 for the development of school-age child care programs, as well as an additional $8 million for dependent care resource and referral agencies.[27] The federal government could authorize and appropriate additional funding for these programs, and could extend it to include other forms of child care.

Such grants could be used to promote child care programs that meet specific child care needs: for example, infant and toddler care programs for teenage mothers to allow them to attend school, programs for low-income handicapped children with working parents, or after-school programs for latchkey children. Furthermore, in order to target the grants toward services for low-income communities and families, grants could be extended to provide matching funds for the operating costs of programs serving predominantly low-income families; they could reduce the costs of care for low-income families by requiring that the child care programs have sliding-fee scales; and they could require that a certain number of subsidized slots be available. These programs would then be available for those parents eligible for subsidies under other federal and state programs, as well as for those low-income parents who do not fit the particular categorical and income eligibility requirements of each state.

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[27] More information on resource and referral agencies is presented later in this section

A related option would be to give states financial and technical assistance to develop partnerships between the private and public sectors to improve the supply of child care for low-income families. The Texas Corporate Child Development Fund is an example of such a partnership. This option could encourage corporations and businesses to contribute to the development of child care programs in low-income areas.

Promote the development of umbrella organizations for family day home providers

Family day care is one of the most common forms of child care in the United States. Although comprehensive data about this type of child care are scarce, in part because the majority of such homes are unregulated, the National Day Care Home Study estimated that 5.2 million children were being cared for in 1.8 million family day homes in the late 1970's.[28]

Family day care associations and umbrella organizations have developed in some communities. They provide resources (such as eligibility for the federal Child Care Food Program) and support services to registered or licensed providers. These organizations can provide training, quality monitoring, health insurance coverage, low-interest loans, and other benefits to family day home providers.[29] They also give providers of family day care an incentive to become licensed or registered.

The federal government could encourage the development of such organizations by providing funding for the start-up costs and costs of operation of umbrella organizations, as well as by providing technical assistance, information, and training. Proponents of this option suggest that umbrella organizations make the provision of family day care services more attractive to potential providers and thereby increase the supply of programs, as well as improve the quality of care provided to the children. They also point out that these organizations provide minimal monitoring of quality and safety for member homes. Such monitoring is frequently provided by the home's membership in the Child Care Food Program (CCFP), which involves approximately three visits each year and focuses on compliance with CCFP nutritional requirements rather than quality of care. Such organizations, however, might increase the degree of regulation of family day homes, which some oppose because they believe it would increase the cost and reduce the availability of care.

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[28] Patricia Devine-Hawkins, "National Day Care Home Study: Family Day Care in the United States" (Washington, D.C.: Government Printing Office, 1981). Some states require family day homes to be licensed, which generally involves compliance with health and safety standards. Other states simply require home registration, which generally does not require any compliance with standards.

[29] Fern Marx, "Child Care" (a paper prepared for the American Public Welfare Association Conference at Wingspread in Racine, Wisconsin, October 1984), p. 38. An example of such a program is the Family Day Care Association in Hennepin County, Minnesota, which had a membership of 900 family day home providers in 1983. It offers a number of services to its providers, including shared resources, insurance coverage, legal assistance, and so forth. Marx points out that, while the services offered by this program are exceptional, it also shows the potential of such organizations.

OPTIONS TO IMPROVE KNOWLEDGE ABOUT AVAILABLE CHILD CARE RESOURCES

Resource and referral (R&R) agencies collect information about the child care resources available in the community and provide this information to parents, thereby helping them become knowledgeable consumers of child care. Furthermore, such agencies can be used to identify the child care needs of the community, as the relationship between requests and referrals can show areas of unmet demand. This information enables policymakers and providers to respond by developing carefully targeted child care programs. In recent years, a number of states and localities have supported the development of R&R agencies. For example, California has funded a statewide network of R&R programs, and other localities and private organizations have become involved in similar efforts.

The federal government could foster the development of such programs by authorizing and appropriating additional funding for the resource and referral portion of the previously mentioned Grants for States for Planning and Development of Dependent Care Programs.[30] The program could also be expanded to provide matching funds for the operating costs of programs that serve low-income communities.

Proponents of such programs think that R&R agencies are beneficial because they can increase the efficiency of the day care system. Furthermore, they argue that financial assistance is particularly necessary for those communities that are unable to support such a service with their own resources. Some opponents maintain that federal funds should be concentrated on expanding the available supply of child care, particularly for low-income families, and therefore should be spent on direct delivery of services. Others maintain that the private sector should be primarily responsible for developing new R&R programs.

OPTIONS TO IMPROVE THE AFFORDABILITY OF CHILD CARE FOR LOW-INCOME FAMILIES

Child care costs can represent a substantial portion of a family's budget, particularly for low-income families or families with large numbers of children. The costs of child care can vary widely, as they depend on the age of the child, the type of child care, the length of time in care, and the geographic area. Generally, care is more expensive for younger children (particularly infants), and center-based care is more expensive than family day home care. Estimates of average annual child care costs range from $2,000 to more than $6,500—costs that can be prohibitive for low-income families.[31]

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[30] The resource and referral portion of the program is currently authorized at $8 million.

[31] The following estimates show average annual child care costs based on local surveys. In Oakland, the average annual cost for center-based preschool care is $2,800; for center-based infant care, $4,200; and for licensed family day homes, $2,600. In Massachusetts, the annual costs for preschool care average $3,500: for infant care, more than $5,000. In Minnesota, annual average costs for preschool care are $1,900; for infant care, $5,600. Other estimates are cited in Select Committee on Children, Youth and Families, "Families and Child Care" (1984), pp. 6, 17, and 29. The cost of child care is related to the issue of the quality of the care. Quality has been

Continued

The federal government could affect the affordability of child care through two primary mechanisms: the Social Services Block Grant (SSBG) and the dependent care tax credit.[32] First, state and federal governments have traditionally provided financial assistance to low-income families (within certain eligibility guidelines) for their child care costs. Prior to 1981, Title XX was the primary source of federal funding for subsidized child care. Although states were required to set aside only $200 million of Title XX funds for child care, an estimated 18 percent (or approximately $720 million) of total Title XX expenditures went to child care in 1980.[33] Under the Omnibus Budget Reconciliation Act of 1981, Title XX was combined with other programs to form the Social Services Block Grant, and its funding levels were reduced by 20 percent.[34] Furthermore, this legislation eliminated the set-aside funding for child care, the income guidelines for eligibility, the state funds matching requirement, and reduced the state's reporting requirements. Although no national data are available because of the latter change, studies by the General Accounting Office and the Urban Institute found that a majority of the states sampled have reduced their expenditures on subsidized child care as a result of the budget reductions of 1981.[35] The states generally maintained funding levels for crisis services, such as child abuse protective services and adoptive and foster care services.[36]

The second federal mechanism that affects the affordability of child care is the dependent care tax credit. Families that use child care to enable adults to work (or the spouse of a worker to go to school) currently qualify for a nonrefundable tax credit based on the costs of that care.[37] The credit applies to the first $2,400 spent for one child or $4,800 for two and the credit rate is reduced as income rises to a minimum of 20 percent for those with an AGI above $28,000.

The child care credit was enacted in 1976, replacing a similar deduction. Making the provision a credit made it available to taxpayers who do not itemize as well as to those who do, thus increasing its value for many lower-income taxpayers. The credit remained essentially unchanged until 1981, when it was increased and targeted

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found to be associated with small group size, high staff/child ratios (found to be particularly important for infants), and staff qualifications. Richard R. Ruopp, "Children at the Center: Final Report of the National Day Care Study," Executive Summary (Cambridge, MA: ABT Books, April 1979), pp. 2–4.

[32] Child care costs are also subsidized indirectly through AFDC and Food Stamps. Expenditures for child care are taken into account in calculating benefit levels in each program. See Chapter III (AFDC) and Chapter IV (Food Stamps) for further details.

[33] U.S. Department of Health and Human Services, Office of Human Development Services, "Report to Congress: Summary Report of the Assessment of the Current State Practices in Title XX Funded Day Care Programs" (October 1981), p. 17.

[34] The Omnibus Budget Reconciliation Act of 1981 reduced the funding level of the SSBG from $2.99 billion in 1981 to $2.40 billion in 1982.

[35] Madeleine Kimmich, "Children's Services in the Reagan Era" (Discussion Paper, Urban Institute, Washington, D.C., October 1984), p. 35 (to be published in June 1985). General Accounting Office, "States Use Several Strategies to Cope with Funding Reductions Under Social Services Block Grant" (August 9, 1984), p. iii.

[36] Ibid., GAO, p. iv, and Kimmich, p. 50.

[37] To qualify, a single parent must work, married couples must have at least one full-time worker and the spouse must work at least part-time or go to school. The children for whom child care is used must be claimed as tax dependents, and either be under 15 or be physically or mentally incapacitated. This credit may also be used for handicapped adult dependents.

more toward lower-income taxpayers. Since 1981, there have been only minor changes in the credit.

In 1982, just over 5 million taxpayers claimed the credit; revenue losses totaled slightly over $1.5 billion, about $300 per claimant.[38] More than half of the families using the credit had incomes above $25,000. Only 6 percent of those claiming the credit had incomes below $10,000, and for these low-income families, tax savings averaged $256. Because its nonrefundability means that families can benefit only to the extent of their tax liability, the credit provides only limited assistance to the poor. Nearly 60 percent of families with incomes below $10,000 benefited by less than the full potential value of the credit in 1982.[39]

Options that would affect the affordability of child care through both direct and indirect means could:

—Reestablish the Social Services Block Grant set-aside for child care for low-income families; and

—Modify the dependent care tax credit.

Earmark Social Services Block Grant funds for child care

The federal government could reinstate the $200 million set-aside for child care in the Social Services Block Grant. The states could then use these funds to develop programs for any of the specific groups that are of concern—for example, school-age children, adolescent mothers, or low-income families.[40]

If the set-aside for child care were created with no additional funding for the SSBG, it could increase expenditures on child care without increasing costs for the federal government. It would also, however, require that states draw funds away from other important social services provided by the Social Services Block Grant, such as protective and crisis services for abused children, adoption and foster care services, adult protective care, and home-based services.

Another option would be to expand funding for the SSBG and require that the additional funds be used only for child care services. Such an expansion could be set at any level the federal government might choose; for example, an additional $200 million could reinstate the previous set-aside, although it is not clear that this amount would be sufficient to return state child care expenditures to their previous levels. This kind of legislation could require a maintenance-of-effort clause to ensure that the new funds would be added to current state day care funding levels, instead of being used to substitute for them. This option would increase the states' ability to provide subsidized child care to low-income families without drawing funds away from other social services provided under the SSBG; at the same time, it would raise federal costs.

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[38] Preliminary figures for the 1983 tax year indicate a large increase in both participation and credit amounts, possibly as a result of changes in regulations. In 1983, taxpayers using Form 1040A were allowed for the first time to claim the credit. In addition, taxpayers taking the credit were not required to identify child care providers. The effect appears to have been about a 30 percent increase—to 6.4 million—in the number of tax returns claiming the credit and a one-third rise—to $2 billion—in revenue losses.

[39] The child care credit is applied before the earned income tax credit (EITC); therefore its value is not limited by the EITC. The child care credit can be used to reduce gross taxes owed, but only down to zero. The EITC is then applied, if applicable, and is refundable. See Chapter III for further discussion of the EITC.

[40] The Congress earmarked a $25 million increase in SSBG funding for fiscal year 1985 to provide training for child care staff, licensing and enforcement officials, and parents, with the proviso that states conduct criminal checks on day care employees.

Proponents of these options argue that there is an inadequate supply of affordable child care for low-income children, and maintain that the federal government has a responsibility to ensure that such care is available. They suggest that it is appropriate to use the SSBG to provide such care, since it has traditionally been the major source of federal funding for child care. Moreover, they argue that such services are cost effective, because they allow families to work and be self-sufficient. Opponents argue that no evidence exists of a shortage of such care. Moreover, they believe that earmarking the SSBG would reverse the block grant process and reduce the states' discretion in determining social service priorities.

Modify the dependent care tax credit

Three approaches could be taken to increase the assistance to families with children provided through the dependent care tax credit. First, the entire credit rate schedule could be raised so that the percentage of child care expenses allowed as a tax credit would be higher for all taxpayers. Second, to hold down the cost of increasing aid, the rate schedule could be tilted so that the percentage of expenses allowed as a credit would be higher for low-income families but reduced—perhaps to zero—for higher-income families. Reduced benefits for those with high incomes would partially offset the higher costs of increasing the credit for low-income families. Third, the credit could be made refundable, with or without changing the percentage rate. This approach would allow all families, regardless of other tax liability, to receive the full value of the credit.

Increasing the credit for low-income families would reduce their net child care expenses, thereby making employment more attractive by raising earnings net of expenses and making schooling more attractive by lowering costs. In turn, through employment and schooling, low-income families could become less dependent on government transfers and other assistance.

Options that would make the credit refundable would strengthen employment and education incentives even more by removing tax liability as a limit on the value of the credit. Because the current credit is not refundable, a married couple with two children would have to have an income above $17,556 to obtain the full potential value of the credit—the percentage credit times the maximum allowable child care expenses.[41] Making the credit refundable would allow all families to receive a percentage of their child care costs up to the allowed maximum. On the other hand, even if it were refundable, families might not benefit from the credit until they filed their tax returns [42] and, thus, might be unable to meet weekly child care costs.

Finally, restricting the credit to families with incomes below a set limit would reduce revenue losses and help finance increased assistance for those families with low incomes. Because about 20 percent of child tax credits—nearly $300 million—went to taxpayers with annual incomes above $40,000 in 1982, significant savings could be obtained. Denying the credit for higher-income families, however, would be a refusal to recognize a legitimate work-related expense for some, while allowing it for others.

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[41] This estimate derives from CBO simulations of 1984 tax law, which assume that families either claim the standard deduction of $3,400 for married couples or $2,300 for single heads of household, or that they deduct through itemization 23 percent of their gross income if that is greater. Total child care costs of at least $4,800 for two children are also assumed.

[42] A family could avoid this problem by reducing the amount of tax withheld from earnings, but many families might not know how.

PART III

Costs and Effects of Expanding AFDC

SUMMARY

The Aid to Families with Dependent Children (AFDC) program is the major source of government cash assistance to low-income children and their families. In 1984, a bill to expand the AFDC program, as well as to require changes in other programs, was introduced in the 98th Congress, and it is expected to be reintroduced in 1985. This bill—H.R. 4920, or the Omnibus Anti-Poverty Act of 1984—would institute the broadest changes in AFDC in recent decades.

This paper presents estimates of the costs and effects of the bill's major AFDC provisions. Most of the provisions have been proposed before in earlier attempts to change the AFDC program, and they would likely be included in any future proposals.

THE AFDC PROPOSALS

The Omnibus Anti-Poverty Act includes five major AFDC proposals, which would:

—Mandate a minimum benefit level,
—Extend benefits to two-parent families,
—Increase deductions from income,
—Liberalize asset restrictions, and
—Reduce states' financing shares for increases in AFDC benefits.

MANDATE A MINIMUM BENEFIT LEVEL

The first, and most costly, proposal would require states to maintain minimum benefit levels. The specific minimum would be set so that the AFDC benefit together with the food stamp benefit would have to equal 65 percent of the poverty income guidelines for each family size. For example, for a family of three in 1986, 65 percent of the poverty guideline—consistent with the guidelines published for previous years by the Department of Health and Human Services—is estimated to be $528 a month. As a result, the AFDC minimum benefit for a family of three would be $396 (and the food stamp benefit, $132). Each year the required AFDC minimum benefits would rise along with the poverty guidelines, which are adjusted for inflation.

A majority of states would have to raise their benefit levels if this proposal were enacted. Now, AFDC benefit levels vary considerably among states because they are set by the states. Moreover, they are far below the poverty guidelines in some states. In July 1984, maximum benefit levels for a family of three in the continental United States ranged from $96 in Mississippi to $558 in Vermont.

EXTEND BENEFITS TO TWO-PARENT FAMILIES

States would be required to extend benefits to all two-parent families whose incomes were low enough to qualify for AFDC. Benefits could be below those for single-parent families (but not below the required minimum benefit) and could be limited to 6 months of each year. The federal financing share would be increased to 75 percent (or left at its current level if higher) for payments to all two-parent families. Adults in these families, and many of the children, would also become—by virtue of their receipt of AFDC—newly eligible for Medicaid.

At state option, two-parent families are now eligible for AFDC only if their principal earner is unemployed or works fewer than 100 hours a month. Twenty-four states and the District of Columbia now provide benefits to families under the AFDC-unemployed parent program.

Because federal financing shares now range from 50 percent to 78 percent (depending on a state's per capita income), the proposal's increased federal share would provide some fiscal relief to states who now have an AFDC-unemployed parent program. These states could have lower or higher expenditures after extending benefits to all two-parent families, while states who do not now have an AFDC-unemployed parent program would experience increased expenditures.

INCREASE DEDUCTIONS FROM INCOME

Deductions from income for determining AFDC benefits would be altered as follows:

—20 percent of gross earnings up to $175 would be allowed for work-related expenses, compared with a flat $75 now.

—$50 and one-quarter of earnings after other deductions would be disregarded with no time limit, compared with $30 for 12 months and one-third of net earnings for 4 months under current law. Also, the $50 and one-quarter deductions would be used in determining eligibility as well as benefit levels.

—The gross income limit, now equal to 185 percent of a state's need standard, would be eliminated.

—A family's deduction for child care expenses would be capped at $320 a month. Deductible expenses now can be as much as $160 a month for each child, with no cap on the total deduction.

—The Earned Income Tax Credit would no longer be counted as income.

—Up to $50 a month of unemployment compensation would be disregarded. Now it is counted in full.

These changes would allow families to retain more of their earnings. Now a $1 increase in earnings results in a $1 decrease in AFDC benefits after the first 4 months of earnings. With the proposed changes, a $1 increase in earnings would result in a 60 cent decrease in benefits, improving incentives to work among families already on AFDC. These changes would raise income limits in the program, however, bringing more families onto AFDC, thereby reducing incentives to work among these new families.

LIBERALIZE ASSET RESTRICTIONS

Asset restrictions, which make ineligible some families with incomes low enough to qualify for AFDC, would be liberalized. The level allowed would be increased to $2,250 from $1,000 (or less, at state option) under current law. The home and basic maintenance items such as furniture would continue to be excluded. The cash value of life insurance, which is now counted, would be excluded. Cars would be treated differently, more closely to their treatment in the Food Stamp program. Now, one car with an equity value up to $1,500 (or less, at state option) is excluded. The Omnibus Anti-Poverty Act would evaluate cars two ways—by their market (full) value and by their equity (market value less debt) value. A market value of less than $5,500 a car would not be counted. Equity value would be assessed excluding one car and a second car if it were necessary for employment. Then the greater of either market value (over $5,500) or equity value would be counted against the overall asset limit.

Asset restrictions have become more restrictive over time as prices have risen. These changes would make more families eligible for AFDC and also for Medicaid.

REDUCE STATES' FINANCING SHARES FOR INCREASES IN AFDC BENEFITS

To encourage added growth in AFDC benefit levels, the Omnibus Anti-Poverty Act would give states an incentive to raise benefits. This incentive would take the form of a 30 percent reduction in the state's financing share for all AFDC benefit increases after a specified date. For example, a state with a 50 percent financing share would have this share reduced by 15 percentage points to 35 percent. A state with a 22 percent financing share—the lowest under current law—would have this share reduced by 7 percentage points to 15 percent. The federal government's share of AFDC benefit increases would then be 65 percent and 85 percent, respectively.

AFDC benefit levels have declined in real terms in almost every state. The median maximum benefit for a four-person family with no income fell by 33 percent from July 1970 to January 1985, and only three states (California, Maine, and Wisconsin) raised benefits to keep pace with inflation. This decline in real benefits means that beneficiary families are able to buy fewer goods and services over time.

The effectiveness of this provision in raising AFDC benefits would depend on the behavior of states. States who would have increased benefits under current law would have their expenditures reduced. They could then use these savings to increase AFDC benefits further or for other purposes. States who would not have increased benefits would now find it less costly to do so, and they might respond by raising benefits.

COSTS OF THE PROPOSALS

Together, these proposals would add significantly to government costs. The five proposals, if enacted jointly, are estimated to add $5.3 billion to federal, state, and local government outlays in fiscal year 1986. By 1990, the estimated additions to outlays would be

$11.3 billion. Added outlays in AFDC, and in the other programs that would be affected by the AFDC changes, are shown in Summary Table 1.

SUMMARY TABLE 1.—ESTIMATED COSTS TO FEDERAL, STATE, AND LOCAL GOVERNMENTS OF AFDC PROPOSALS

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
AFDC	5.5	8.4	9.3	9.9	10.5
Food stamps	−1.2	−1.8	−2.0	−2.1	−2.3
Medicaid	1.1	2.5	2.7	2.9	3.1
General assistance	−.1	−.1	−.1	−.1	−.1
Total	5.3	9.0	9.9	10.6	11.3
Federal	3.3	5.4	6.0	6.4	6.9
State	2.0	3.5	3.9	4.2	4.4

In AFDC, costs would rise by $5.5 billion in 1986 and $10.5 billion in 1990. Costs would be lower in 1986, in part because several years would pass before all the newly eligible families would begin to receive AFDC; when families are made newly eligible because of a legislative change, they flow onto a program only over time as they learn of their eligibility or as their circumstances change. Costs would rise to $21.8 billion from CBO's current law projection for AFDC in fiscal year 1986 of $16.3 billion—a one-third increase. By 1990, AFDC outlays would be increased from $18.2 billion to $28.7 billion, a rise of 58 percent.

The most costly single proposal is that mandating a minimum benefit level, which by itself would add an estimated $3.4 billion to AFDC outlays in 1986. Moreover, because of interactions, costs of the other proposals would also rise. Mandating a minimum benefit level and expanding benefits to two-parent families together would account for almost three-quarters of the AFDC costs of the total package. This paper includes estimates of the costs and effects of each of the proposals if it were enacted separately, as well as the costs and effects of the entire package.

These costs include estimated increases in AFDC administrative costs and in AFDC benefit costs to allow for reduced work effort. Administrative costs would rise because of the increase in the number of families receiving AFDC—by about $0.3 billion and $0.9 billion in 1986 and 1990, respectively. Hours worked by the families made newly eligible and participating in AFDC are estimated to fall—because of both the rise in their incomes and the large decrease in their AFDC benefits for every added dollar they earned (the "marginal benefit reduction rate"); as a result, AFDC benefit costs would be $0.2 billion and $0.7 billion higher in 1986 and 1990, respectively.

Several other programs would be affected by the AFDC changes: Food Stamps, Medicaid, and state General Assistance (GA) programs. Costs in the Food Stamp program would decline by an estimated $1.2 billion in 1986. Because AFDC benefits are counted as income of participating families, their food stamp benefits would fall automatically as their AFDC benefits rose. Costs in the Medicaid program would rise by an estimated $1.1 billion in 1986 because most of the families who participated in AFDC for the first time would also become newly eligible for Medicaid. Finally, costs in state General Assistance programs would decline by an estimated $0.1 billion in 1986 because a small number of the new families would have received GA if they were not receiving AFDC.

The additional costs of these proposals would be shared by federal and state governments. In 1986, federal outlays would rise by $3.3 billion, or 63 percent of the total, and state outlays by $2.0 billion, or 37 percent.

EFFECTS OF THE PROPOSALS

At least 3.8 million families with low incomes would be made better off by the package of proposals. Of these families, an estimated 1.5 million would be families newly eligible for, and participating in, AFDC. Approximately 60 percent of the new families would be two-parent families and 40 percent, single-parent families. As a result, the number of families receiving AFDC would rise from 3.8 million to 5.2 million—an increase of more than 40 percent—and a larger proportion would be two-parent families than currently. Another 2.3 million families now receiving AFDC—about 63 percent of those on the program—would have their benefits increased.

CHANGES IN POVERTY

The package of proposals would reduce poverty significantly. About three-fifths of the families that would be made better off by the proposals are poor based on official measures of poverty maintained by the Bureau of the Census. Three-quarters of the cost of the proposals would go to closing the poverty gap, which is a measure of the additional income poor families would need for their incomes to equal their poverty thresholds as determined by the Bureau of the Census. Moreover, many of the families affected by the proposals who are not poor on an annual basis would have little or no other income during the months of the year they received the AFDC benefits.

The poverty gap would be at least $4.7 billion less after the proposals were enacted. This represents a decline of almost one-third among families affected by the proposals and almost one-fifth among all families with children.

About 300,000 families would move out of poverty. As a result, the poverty rate for families affected by the package of proposals would drop by 10 percent—from 62 percent to 56 percent. For all families with children, the poverty rate would fall by 5 percent—from 18 percent to 17 percent.

REGIONAL EFFECTS

The effects of enacting the package of proposals would vary sharply among the regions. The South would account for one-half of the package's AFDC benefit costs in 1986, compared with only 14 percent of total benefit costs under current law. As a result, AFDC payments in the South would increase by one and one-half times. At the same time, two-fifths of the families made better off would live in the South.

The North Central, Northeast, and West regions would account for approximately 22 percent, 12 percent, and 17 percent of the proposals' AFDC benefit costs, respectively, compared with 30 percent, 28 percent, and 28 percent of the program's current benefit costs. Their AFDC payments would increase much less than the South's in percentage terms: by about one-third in the North Central region, one-fifth in the Northeast, and one-quarter in the West.

The southern region's disproportionate share reflects mainly the effects of the minimum benefit proposal, which would require every southern state to increase its AFDC maximum benefit level. Also, few southern states now have AFDC programs for unemployed parents; hence, rather than saving from the increased federal financing share for two-parent families, their costs would rise because of the expanded coverage to this group.

CHAPTER I. INTRODUCTION

The Omnibus Anti-Poverty Act of 1984, which was introduced in the 98th Congress and is expected to be reintroduced in 1985, has as its stated aim program expansions that would "reverse the present upward trend in the poverty rate." Poverty rates for families have risen steadily since 1978, after declining sharply during the 1960s and remaining fairly steady during most of the 1970s. Among all families with children, 17.9 percent were poor in 1983. Single-parent families headed by a female had much higher poverty rates than other families—47.2 percent compared with 10.5 percent. For low-income, female-headed families, the Aid to Families with Dependent Children (AFDC) program provides a major, and often the only, source of income.

Five major changes that would expand AFDC are proposed in the Omnibus Anti-Poverty Act of 1984. The proposals are summarized below. This paper estimates the costs and effects of these proposals, singly and in combination, and also considers variations on some of the proposals. These same proposals have been included in numerous previous attempts to change AFDC, and they would likely form the basis for any future proposed expansions.

Five Proposals to Expand Aid to Families with Dependent Children

The Omnibus Anti-Poverty Act includes five major proposals that would expand the AFDC program.

Mandate a minimum benefit level. States would be required to maintain minimum benefit levels in AFDC. The minimum AFDC benefit plus the food stamp benefit would have to equal 65 percent of the Department of Health and Human Services poverty income guidelines for each family size. Thus, the minimum benefits would increase each year along with the poverty guidelines.

Extend benefits to two-parent families. States would be required to provide benefits to all two-parent families whose incomes were low enough to qualify for AFDC. Benefits could be limited to six months of each year and could be below those given to single-parent families (but not below the required minimum benefit). The federal financing share would be increased to 75 percent for payments to all two-parent families.

Increase deductions from income. Monthly deductions from income would in general be increased, resulting in higher AFDC benefits for families with outside income. For those with earnings, deductions would equal 20 percent of gross earnings up to $175; child care expenses up to $160 per child with a cap of $320 per family; $50 and one-quarter of remaining net earnings; and any Earned Income Tax Credit. The $50 and one-quarter deductions would be used in determining both eligibility and benefit levels.

Also, $50 of unemployment compensation would be disregarded, and the gross income limit would be eliminated.

Liberalize asset restrictions. The asset limit would be increased to $2,250 ($3,500 if a family member was age 60 or over). The cash value of life insurance policies would be excluded, and the restrictions on cars would be liberalized. One car with a market value of less than $5,500 would be excluded, and a second car would also be excluded if it were necessary for employment.

Reduce states' financing shares for increases in AFDC benefits. A state's financing share would be decreased by 30 percent for all increases in maximum AFDC benefits after a specified date.

AN OVERVIEW OF AFDC

To comprehend the basis for, and effects of, the proposals for expansion of AFDC in the Omnibus Anti-Poverty Act, both the characteristics of the AFDC program and its trends over time must be understood. These are discussed in turn.

AFDC PROGRAM CHARACTERISTICS

The AFDC program provides cash payments for needy children (and their mothers or other caretaker relatives) who have been deprived of support because of a parent's absence, death, incapacity, or, in some cases, unemployment. Within this broad guideline, states determine program eligibility subject to specific federal limitations. Both states and the federal government share in the financing of the program.

The program's major characteristics, especially those relevant to the proposals considered here, are as follows:

—States set maximum benefit levels. As a result, they vary significantly among states, and in some states they are far below the poverty thresholds established by the Bureau of the Census. In July 1984, benefit levels for a three-person family in the continental United States ranged from $96 in Mississippi to $558 in Vermont.

—Few low-income, two-parent families are eligible for AFDC. Two-parent families in which the principal earner works 100 hours a month or more, regardless of how low their incomes, are not eligible. Two-parent families in which the principal earner works fewer hours or is unemployed are eligible in 24 states and the District of Columbia, but not in the remaining 26 states.

—Few single-parent families with a full-time earner can qualify for AFDC, following a tightening of program rules in 1981. Eligibility and benefits depend on a family's income, which is reduced by a number of deductions. Monthly earnings are reduced by a flat $75 to cover work-related expenses; actual child care expenses up to $160 per child; $30 during the first 12 months of earnings; and one-third of remaining net earnings during the first 4 months of earnings. Except for $50 of child support each month, there are no deductions from unearned income. To receive benefits, a family's gross income may not exceed 185 percent of the state's need standard.

—Maximum levels are set for assets as well as for income. The current level allowed is $1,000 (or less, at state option). The home, one car with an equity value up to $1,500, and basic maintenance items such as furniture are not counted. Life insurance is counted at its cash value; remaining assets are counted at their equity value.

—The federal and state financing shares vary among states, depending on a state's per capita income. The lowest federal share is legislated to be 50 percent, and the highest in 1986-1987 will be 78.42 percent. On average, the federal government finances 54 percent of payments to beneficiaries, and the state's share is 46 percent.

AFDC TRENDS

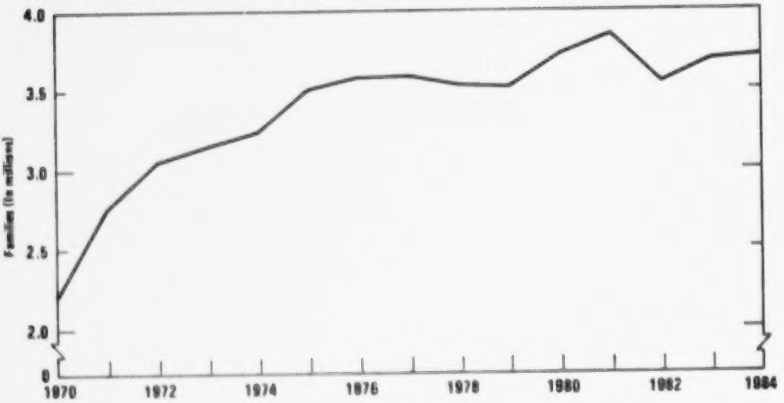
Aggregate AFDC payments to families rose sharply during the last 15 years—from $4.9 billion in 1970 to $14.5 billion in 1984. But the number of families receiving AFDC grew much less than the number of female-headed families; and because of increases in prices, average real benefits declined.

The number of families receiving AFDC grew from 2.2 million in 1970 to 3.7 million in 1984, with most of the growth occurring before the mid-1970s (see Figure 1). Over the same period, however, the number of female-headed families grew from 5.6 million to 9.9 million. Since 1972, when the growth in the number of AFDC families tapered off, the percentage of female-headed families receiving AFDC has declined almost steadily—to 35 percent in 1984 from 45 percent in 1972.

Maximum benefits (to a family of four) have also risen steadily, but by much less than prices have risen. As shown in Figure 2, the decline in real benefits has occurred in every period since 1970, and has totaled 33 percent over the entire 1970-1984 period.

Figure 1.

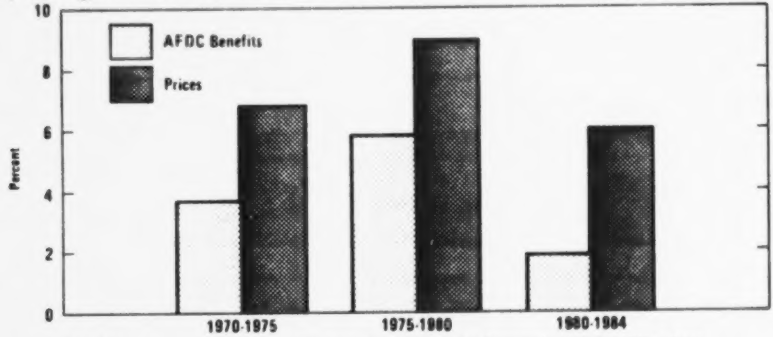
AFDC Families (In millions)



SOURCE: Compiled by Congressional Budget Office from Social Security Administration, *Social Security Bulletin, Annual Statistical Supplement* (1983), p. 248, and from Social Security Administration, *Monthly Benefit Statistics*, various issues.

Figure 2.

Increases in AFDC Maximum Benefits and Prices (Average annual increases in percent)



SOURCE: Increases in Consumer Price Index calculated by the Congressional Budget Office from Bureau of Labor Statistics data, increases in AFDC benefits calculated by the Congressional Budget Office from Congressional Research Service data.

NOTE: AFDC benefits are the maximum benefit for the median state for a four-person family as of July of each year. Prices are increases in the Consumer Price Index for All Urban Consumers.

THE ESTIMATES

Each of the five proposals is first considered separately, assuming that each would be enacted alone. Then costs and effects are shown assuming enactment of the full package of proposals. Because of interactions among the proposals, many more families would become eligible for AFDC and benefits of many families would be higher if all proposals were enacted. Thus, costs of the entire package would be considerably more than the sum of each proposal's costs.

In assessing the entire package of proposals, some adjustments to costs are included that are not considered for each separate proposal. The adjustments are much more important for the package of proposals than for any one of the proposals considered alone. The adjustments are:

- —Higher administrative costs in the AFDC and Medicaid programs;
- —Higher benefit costs in AFDC because of reduced work effort by affected families; and
- —Lower benefit costs in AFDC in the early years of implementation because newly eligible families would go onto AFDC only over time.

Thus, the numbers of new families on AFDC in 1986 shown in these chapters represent estimates of new families after they had all come onto AFDC. The estimates of effects on poverty and on regions for 1986 are consistent in assuming a full effect from the proposals in 1986.

Estimates of costs are shown for fiscal years 1986 through 1990. The estimates assume an implementation date of October 1, 1985.[1]

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[1] Unless otherwise noted, all years in this paper are fiscal years. Details in the text, tables, and figures may not add to the totals because of rounding.

CHAPTER II. MANDATING A MINIMUM BENEFIT LEVEL

Benefit levels in the Aid to Families with Dependent Children program vary significantly among states. In July 1984, benefit levels for a three-person family ranged from $96 in Mississippi to $558 in Vermont ($696 in Alaska).

One way to reduce these disparities is to mandate a minimum AFDC benefit level. Such a minimum benefit could be set in many different ways and at many alternative levels. The Omnibus Anti-Poverty Act sets the minimum so that it, plus the food stamp benefit, would equal 65 percent of the Department of Health and Human Services (DHHS) poverty guideline for each family size. For a family of three, this minimum AFDC benefit would be $396 in 1986. The minimum benefits would increase each year along with the poverty guidelines, which are adjusted for inflation.

The total cost of mandating such a minimum benefit in AFDC is estimated to be $2.7 billion in fiscal year 1986 (see Table 2-1). The federal government share would be $1.3 billion and the share of states and localities, $1.4 billion. Costs would rise significantly over time because the poverty guidelines are projected to rise with inflation by more than any increases in AFDC benefit levels enacted by states and localities. By 1990, costs would total $3.7 billion—$1.0 billion, or 37 percent, more than in 1986.

TABLE 2-1.—TOTAL COSTS OF MANDATING A MINIMUM BENEFIT LEVEL IN AFDC

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
Federal	1.3	1.4	1.5	1.7	1.8
State	1.4	1.5	1.6	1.8	1.9
Total	2.7	2.9	3.2	3.4	3.7

Note: Costs include those in the AFDC, Medicaid, and Food Stamp programs. Costs, or savings, for each program are shown in Table 2-7.

Source: Congressional Budget Office.

An estimated 41 states would have to raise their benefit levels to meet the minimum in 1986, although several would have to raise benefit levels for only one or two family sizes. About 2.4 million families—including about three-fifths of those currently on AFDC—would receive higher AFDC benefits with enactment of such minimum benefit legislation.

BENEFIT LEVELS IN AFDC

Maximum benefit levels in AFDC are set by the states and localities. Unlike benefits in other means-tested programs, they vary significantly among states. In the Food Stamp program, which provides food coupons to all families whose incomes fall below a specified level, benefits are the same in all states (except for Alaska and Hawaii). And in the Supplemental Security Income program, which provides cash benefits to low-income aged or disabled individuals, the federal benefit is fixed nationwide although states may supplement it.

In July 1984, maximum AFDC benefits for states ranged from less than $100 a month to more than $550 in the continental United States (see Table 2-2). By region, maximum benefits in the West in July 1984 averaged $504, two and one-half times more than the average benefit of $203 in the South. Maximum benefits in the North Central and Northeast regions averaged $343 and $427, respectively.

TABLE 2-2.—MAXIMUM AFDC BENEFITS, JULY 1984

[In dollars]

State	3-person family	4-person family
Alabama	118	147
Alaska	696	775
Arizona	233	282
Arkansas	164	191
California	555	660
Colorado	346	420
Connecticut	546	636
Delaware	287	336
District of Columbia	299	366
Florida	231	273
Georgia	208	245
Hawaii	468	546
Idaho	304	344
Illinois	302	368
Indiana	256	316
Iowa	360	419
Kansas	373	422
Kentucky	197	246
Louisiana	190	234
Maine	360	452
Maryland	313	376
Massachusetts	396	463
Michigan	372	441
Minnesota	524	611

TABLE 2-2.—MAXIMUM AFDC BENEFITS, JULY 1984—Continued

[In dollars]

State	3-person family	4-person family
Mississippi	96	120
Missouri	263	308
Montana	332	425
Nebraska	350	420
Nevada	228	272
New Hampshire	378	429
New Jersey	385	443
New Mexico	258	313
New York	474	566
North Carolina	202	221
North Dakota	357	437
Ohio	276	343
Oklahoma	282	349
Oregon	368	446
Pennsylvania	350	415
Rhode Island	479	547
South Carolina	168	206
South Dakota	329	371
Tennessee	138	168
Texas	148	178
Utah	363	425
Vermont	558	622
Virginia	327	379
Washington	476	561
West Virginia	206	249
Wisconsin	533	636
Wyoming	265	310
Median State	327	376

Source: Compiled by Congressional Budget Office using data from the Congressional Research Service.

These wide differences are based primarily on the relative desires and capabilities of states and localities to assist their needy populations. Also, they result in part from differences in the cost-of-living among geographic areas. While existing data on cost-of-living differences are not reliable, they suggest that rural areas have a lower cost-of-living than urban areas and that the South has a lower cost-of-living than other regions.[1]

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[1] See Janice Peskin, Geographic Payment Variation In a Federal Welfare System (Technical Analysis Paper, Office of Income Security Policy, Office of the Assistant Secretary of Planning and Evaluation, Department of Health and Human Services, January 1977).

To the extent they do not reflect the relative cost-of-living, such wide differences in AFDC benefits are not consistent with a welfare system that has horizontal equity. Horizontal equity—treating people in similar circumstances similarly—is often mentioned as a goal of welfare reform. Moreover, benefits in some areas may be inadequate to provide a subsistence income. On the other hand, requiring identical benefits in all geographic areas would cause welfare benefits to be a much higher proportion of earnings in low-income states and localities and could lead to large work disincentives.

Mandating a minimum AFDC and food stamp benefit at 65 percent of the poverty guidelines would remove some, but not all, of the differences among states and localities.

COSTS AND EFFECTS OF THE MINIMUM BENEFIT

The costs of mandating an AFDC minimum benefit level would depend on the minimum benefit relative to the benefit levels that would pertain under current law. In 1986, the required minimum benefits for families with three and four persons are projected to be $396 and $467 a month ($4,752 and $5,604 a year), respectively. The AFDC minimum benefits plus food stamp benefits would then equal 65 percent of the poverty guidelines for each family size in the year of the benefit increase (see Table 2-3).[2]

The required minimum benefit would increase each year; by 1990 it is projected to be $478 and $562 a month for families with three and four persons, respectively. The increase is determined largely by the projected rise in the poverty guidelines, which are adjusted annually by the rise in the Consumer Price Index (CPI). The guidelines are projected to increase about 4.8 percent a year through 1990, based on CBO's economic assumptions of August 1984. If the CPI rises by more or less, the required minimum benefit would also be higher or lower. A greater rise in the CPI would increase costs of the minimum benefit, but the amount of the increase would depend on how states would otherwise have altered their benefit levels in response to the higher rates of inflation.

TABLE 2-3.—AFDC MINIMUM MONTHLY BENEFIT LEVELS REQUIRED IN 1986

[In dollars]

Family size	AFDC minimum benefit	Food stamp benefit [1]	65 percent of poverty guideline [2]
1	108	([3])	([3])
2	337	83	420

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[2] The poverty guidelines published each year by DHHS are based on the official poverty thresholds determined by the Bureau of the Census. The poverty guidelines for 1985 are simplifications of the official 1984 thresholds. H.R. 4920 would require a forecast of the guidelines so that those used in determining the AFDC minimum benefit for 1986 would actually apply to 1986. For a description of the guidelines and how they differ from the official poverty thresholds, see Gordon M. Fisher, "The 1984 Federal Poverty Income Guidelines," Social Security Bulletin, vol. 47 (July 1984), pp. 24-27.

TABLE 2-3.—AFDC MINIMUM MONTHLY BENEFIT LEVELS REQUIRED IN 1986—Continued

[In dollars]

Family size	AFDC minimum benefit	Food stamp benefit [1]	65 percent of poverty guideline [2]
3	396	132	528
4	467	169	636
5	546	199	745
6	605	248	853
7	700	261	961
8	764	306	1,070
9	829	349	1,178
10	894	392	1,286

[1] Under the provisions of H.R. 4920, food stamp benefits used in calculating the minimum benefit would be those for a family with income equal to the AFDC minimum benefit and with the food stamp standard deduction. The food stamp allotment and standard deduction are projected to 1986 using CBO economic assumptions of August 1984.

[2] The DHHS poverty guidelines have been divided by 12 to arrive at a monthly figure. The guidelines are projected to 1986 using CBO economic assumptions of August 1984.

[3] In H.R. 4920, the minimum benefit for a family (AFDC unit) of one would equal the difference between the poverty guidelines for families of three and four (636 − 528 = 108).

Source: Congressional Budget Office.

EFFECTS ON FAMILIES

Most of the costs of mandating an AFDC minimum benefit—$2.9 billion or 87 percent of total additional AFDC costs in 1986—would stem from the higher benefits provided to families currently receiving AFDC (see Table 2-4). Some 2.2 million currently participating families would receive additional AFDC benefits averaging $111 a month or $1,330 a year. These affected families would account for 60 percent of all current AFDC families.

The remaining costs would be for newly participating families: those currently ineligible for AFDC who would become eligible because of the increased benefit levels, and those currently eligible but not participating who would participate because their potential benefits increased. The CBO estimates, though with much uncertainty, that these families would number about 190,000 on an average monthly basis and receive AFDC benefits averaging $197 a month ($2,365 a year). Additional program costs for these families would total $0.4 billion a year in 1986.

TABLE 2-4.—EFFECTS ON FAMILIES OF MANDATING AN AFDC MINIMUM BENEFIT LEVEL, 1986

	Total AFDC costs [1]		Families affected		
	Amount (billions of dollars)	Percent of total	Number (millions)	Percent of total	Average monthly benefit increase (dollars)
Current AFDC families	2.9	87	2.2	92	111
New families	.4	13	.2	8	197
Total	3.4	100	2.4	100	118

[1] Costs are those in AFDC alone; costs for Medicaid and Food Stamps are not included.

Source: Congressional Budget Office.

The estimates of newly participating families are uncertain for two reasons. First, estimating the number of families who would become newly eligible is difficult because the available data seldom provide the detail necessary to simulate AFDC eligibility precisely. For example, information on the asset holdings of families is generally unavailable. Second, the number of eligible families who would choose to participate in AFDC can never be known with any certainty. These problems, and the assumptions used in the estimates, are discussed in more detail in Chapter VIII.

EFFECTS ON POVERTY

All families who receive AFDC have low incomes, and most are poor based on official poverty thresholds and other measures published by the Bureau of the Census. This section looks at the impacts of mandating a minimum AFDC benefit on poverty among families affected by the proposal and among all families with children.

Mandating a minimum benefit would raise the incomes of 1.9 million poor families—and also 0.8 million nonpoor families, as discussed below—and would move an estimated 0.1 million families out of poverty (see Table 2-5). As a result, the poverty rate for poor families affected by the proposal would decline by 5.6 percent—from 70.8 percent to 66.8 percent. More than two-thirds of the families that would be affected by the proposal would be poor.

TABLE 2-5.—ESTIMATED EFFECTS ON POVERTY OF MANDATING AN AFDC MINIMUM BENEFIT LEVEL, 1986

	Poverty status of families affected by the proposal [1]			Poverty status of all families with children [2]		
	Poor	Nonpoor	Total	Poor	Nonpoor	Total
Before Mandating a Minimum Benefit						
Number of families (millions)	1.9	0.8	2.7	5.7	26.9	32.6
Percent	70.8	29.2	100.0	17.5	82.5	100.0
Poverty gap (billions of dollars)	9.3		9.3	24.8		24.8
After Mandating a Minimum Benefit						
Number of families (millions)	1.8	0.9	2.7	5.6	27.0	32.6
Percent	66.8	33.2	100.0	17.2	82.8	100.0
Poverty gap (billions of dollars)	6.6		6.6	22.1		22.1
Change						
Number of families (millions)	−0.1	0.1		−0.1	0.1	
Percent	−5.6	13.6		−1.9	0.4	
Poverty gap (billions of dollars)	−2.7		−2.7	−2.7		−2.7
Percent	−29.0		−29.0	−10.8		−10.8

[1] Numbers of families are those on AFDC at any time during the year. Because some families affected by the proposal are on AFDC only part of the year, the number of families shown here (2.7 million) is greater than the 2.4 million on an average monthly basis shown in Table 2-4.

[2] For all families with children, poverty counts and rates before mandating a minimum benefit level are published estimates for 1982. See Department of Commerce, Bureau of the Census, "Characteristics of the Population Below the Poverty Level: 1982" (Current Population Reports, Consumer Income, Series P-60, No. 144, March 1984).

Source: Congressional Budget Office.

The poverty gap, a measure of how much additional income poor families would need for their incomes to equal their poverty thresholds, would decline significantly with a required minimum benefit—by $2.7 billion, or 29 percent, for those families affected by the proposal. Almost 80 percent of the cost of the minimum benefit would go to reducing the poverty gap.

Not all of the increased AFDC benefits from the proposal would go to reducing the poverty gap for two reasons. First, even though an affected AFDC family were poor, only a portion of the AFDC benefit might be needed to raise the family's income to the poverty threshold. For example, assume that a family has an annual income $50 below their poverty threshold; if this family were to receive $100 in annual benefits, only the first $50 would go to reducing their poverty gap, and any remaining benefits would simply move the family further above their poverty threshold. Second, income is measured differently for calculating poverty status than for figuring AFDC benefits. Poverty estimates are based on annual income whereas AFDC benefits are based on monthly income. Families affected by the proposal would probably be poor during the months they were receiving AFDC. During other months of the year, however, incomes of some families would be too high for them to be eligible for AFDC; in this instance, their annual incomes could exceed the poverty threshold. In addition, income of all family members sharing a household is used for calculating poverty status, while only the income of the AFDC family is counted for figuring AFDC benefits. Thus an AFDC family may be part of a larger family that is not poor by Census poverty measures.

Mandating the minimum benefit would cause the poverty rate for all families with children to decline from 17.5 percent to 17.2 percent. A more significant decline would occur in the poverty gap, which would fall from $24.8 billion to $22.1 billion, a 10.8 percent reduction.

Estimates of the effects on poverty of mandating a minimum benefit are broad indicators only. The estimated effects on poverty were based on 1982 poverty thresholds and incomes. These effects were then adjusted to reflect the estimated costs and effects of the minimum benefit proposal in 1986, as discussed in Chapter VIII.

EFFECTS ON REGIONS

The effects of mandating minimum AFDC benefits would vary sharply among the regions. The proposal would have its major effect in the South, where current AFDC benefits are relatively low. Every state in the South would have to raise its benefits. Also, 65 percent of costs would be in the southern states, where AFDC benefits would have to be raised an average of $176 a month, or $2,110 a year (see Table 2-6).

TABLE 2-6.—EFFECTS OF MANDATING AN AFDC MINIMUM BENEFIT LEVEL, BY REGION IN 1986[1]

Region[2]	States affected		Total AFDC costs		Current AFDC families affected			
	Number in region	Number affected	Amount (billions of dollars)	Percent of total	Number (millions)	Percent of total	Percent of all AFDC families in region	Average monthly benefit increase (dollars)
North Central	12	10	0.8	27	0.9	40	84	76
Northeast	9	6	.1	5	.3	15	39	38
South	17	17	1.9	65	.9	41	94	176
West	13	8	.1	3	.1	4	13	80
Total	51	41	2.9	100	2.2	100	61	111

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[1] Regional effects are available only for current AFDC families.

[2] North Central—Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin;

Northeast—Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont;

South—Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia;

West—Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

Source: Congressional Budget Office.

The North Central region would also be affected significantly, accounting for 27 percent of the proposal's costs. About 84 percent of the families participating in AFDC in that region would have their benefits raised by an average $76 a month ($910 a year). The Northeast and West together would account for only 8 percent of the proposal's costs.

EFFECTS ON FOOD STAMPS AND MEDICAID

When AFDC benefits are changed, costs in the Food Stamp and Medicaid programs are often automatically affected. In the Food Stamp program, AFDC benefits are counted as income of participating families; as their AFDC benefits rise, their food stamp benefits fall. In Medicaid, families are automatically eligible if they are on AFDC; thus, families who would participate in AFDC for the first time might become new Medicaid recipients.

TABLE 2-7.—TOTAL COSTS OF MANDATING AN AFDC MINIMUM BENEFIT LEVEL, BY PROGRAM

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
Federal costs:					
AFDC	2.1	2.3	2.5	2.7	2.9
Food Stamps	−.9	−1.0	−1.1	−1.2	−1.3
Medicaid	.1	.1	.2	.2	.2
Subtotal	1.3	1.4	1.5	1.7	1.8
State costs:					
AFDC	1.3	1.4	1.5	1.6	1.8
Food Stamps					
Medicaid	.1	.1	.1	.1	.1
Subtotal	1.4	1.5	1.6	1.8	1.9
Total costs:					
AFDC	3.4	3.7	4.0	4.3	4.7
Food Stamps	−.9	−1.0	−1.1	−1.2	−1.3
Medicaid	.2	.2	.3	.3	.3
Total	2.7	2.9	3.2	3.4	3.7

Source: Congressional Budget Office.

As a result of these changes in the Food Stamp and Medicaid programs, total costs of mandating an AFDC minimum benefit would be less than AFDC costs alone (see Table 2-7). Total AFDC costs in 1986 are estimated to be $3.4 billion. Savings in food stamps are estimated to be $0.9 billion; about 80 percent of AFDC families receive food stamps, and each added dollar of AFDC reduces food stamp benefits by approximately 34 cents on average ($3.4 x 0.8 x 0.34=$0.9).[3]

Costs in Medicaid are estimated to be $0.2 billion in 1986. Of the 190,000 new AFDC families, 72 percent are estimated to be new recipients of Medicaid. Because families with high medical expenditures may be eligible for Medicaid in some states even if their incomes are too high to receive AFDC, some of the new AFDC families—an estimated 28 percent—would have already been receiving Medicaid. This percentage is relatively low because many of the southern states do not have these programs for the "medically needy." For each new Medicaid family, the Medicaid cost is estimated to average $1,640 in 1986. This cost assumes that these families are relatively healthy, with Medicaid costs about 80 percent of the average cost for all Medicaid families.[4] The cost has been calculated by region because Medicaid costs vary significantly by region, as does the impact of the minimum benefit proposal.

Federal and state shares of the total costs differ by program. In both AFDC and Medicaid, financing is shared by federal, state, and local governments. For the states affected by the minimum AFDC benefit provision in 1986, the federal share of costs would average 62 percent and the state share, 38 percent. The federal share would be higher than the average for all states (54 percent) because the affected states have lower incomes, resulting in higher federal financing shares. Food stamp benefits, however, are financed in full by the federal government, although administrative costs are shared equally by the states and the federal government.

ALTERNATIVE MINIMUM BENEFIT LEVELS

The effects of mandating an AFDC minimum benefit are quite sensitive to the level of the minimum benefit. Using 60 percent or 70 percent of poverty guidelines to establish the minimum benefit, rather than 65 percent, would significantly change both program costs and the number of affected families. For a family of three, the required minimum monthly AFDC benefits would be $338 at 60 percent, and $454 at 70 percent, compared with $396 at 65 percent (see Table 2-8).

In 1986, total AFDC costs would be $2.0 billion with the 60 percent alternative and $5.1 billion with the 70 percent alternative—a decrease of $1.4 billion and an increase of $1.7 billion, respectively, compared with the 65 percent proposal. By 1990, the differences would be larger still, because of expected inflation over the 5-year period (see Table 2-9). Total costs for each alternative would be less than AFDC costs alone because savings in the Food Stamp program would be much larger than additional costs in Medicaid.

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[3] Food Stamp benefits are reduced by 30 cents for each added dollar of AFDC. In addition, for some families the higher AFDC incomes lower the deduction for shelter costs in excess of 50 percent of countable income. Taking account of this shelter deduction, food stamp benefits decline by about 34 cents on average for all AFDC families.

[4] Families newly eligible for AFDC would have other income, often earnings. Families with a parent working would probably have lower than average Medicaid costs, because either the family members would be healthier—thus enabling the parent to work—or the job would provide health insurance.

TABLE 2-8.—ALTERNATIVE AFDC MINIMUM MONTHLY BENEFIT LEVELS REQUIRED IN 1986

[In dollars]

Family size	60 percent of poverty guideline	65 percent of poverty guideline	70 percent of poverty guideline
1 [1]	100	108	117
2	291	337	383
3	338	396	454
4	397	467	537
5	464	546	628
6	511	605	699
7	594	700	805
8	647	764	882
9	700	829	959
10	753	894	1,035

[1] In H.R. 4920, the minimum benefit for a family (AFDC unit) of one would equal the difference between the poverty guidelines for families of three and four (636 − 528 = 108).

Source: Congressional Budget Office.

About 1.7 million AFDC families residing in 33 states would be affected under the 60 percent option; 2.6 million residing in 43 states would be affected under the 70 percent option (see Table 2-10). The 65 percent option would affect 2.4 million families in 41 states. Raising the minimum benefit from 60 percent to 65 percent would affect an additional 0.6 million current AFDC families, but raising the minimum from 65 percent to 70 percent would affect only an additional 0.1 million. Conversely, monthly average benefit increases and AFDC costs would be altered more by raising the percentage.

TABLE 2-9.—AFDC COSTS OF MANDATING ALTERNATIVE AFDC MINIMUM BENEFIT LEVELS

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
60 Percent of Poverty Guideline					
Federal	1.3	1.4	1.5	1.7	1.8
State	.7	.8	.9	.9	1.0
Total	2.0	2.2	2.4	2.6	2.8
65 Percent of Poverty Guideline					
Federal	2.1	2.3	2.5	2.7	2.9
State	1.3	1.4	1.5	1.6	1.8
Total	3.4	3.7	4.0	4.3	4.7
70 Percent of Poverty Guideline					
Federal	3.1	3.4	3.7	4.0	4.3

TABLE 2-9.—AFDC COSTS OF MANDATING ALTERNATIVE AFDC MINIMUM BENEFIT LEVELS—Continued

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
State	2.0	2.2	2.4	2.5	2.7
Total	5.1	5.6	6.0	6.5	7.0

Note: Costs are those in AFDC alone; costs for Medicaid and Food Stamps are not included.

Source: Congressional Budget Office.

Setting the minimum benefit at 60 percent of the DHHS poverty guidelines would have approximately half the impact on poverty as would a minimum set at 65 percent. The poverty gap would be reduced by $1.6 billion; half as many families would be moved out of poverty, for a 1.0 percent reduction in the poverty rate for all families with children (see Table 2-11). With the 70 percent option, the poverty gap would be reduced by $3.9 billion; the reduction in the poverty rate for all families with children would be 3.6 percent, almost double the reduction with the 65 percent option. Some 78 percent of the cost of the 70 percent option would go to reducing the poverty gap, compared with 81 percent for the 60 percent option and 79 percent for the 65 percent option.

TABLE 2-10.—EFFECTS ON FAMILIES OF MANDATING ALTERNATIVE MINIMUM BENEFIT LEVELS, 1986

Option	Families affected (millions)		Average monthly benefit increase (dollars)	
	Current	New	Current	New
60 percent of poverty guideline	1.6	0.1	89	195
65 percent of poverty guideline	2.2	.2	111	197
70 percent of poverty guideline	2.3	.3	160	208

Source: Congressional Budget Office.

TABLE 2-11.—ESTIMATED EFFECTS ON POVERTY OF MANDATING ALTERNATIVE MINIMUM BENEFIT LEVELS, 1986

	60 percent of poverty guideline						70 percent of poverty guideline					
	Poverty status of families affected by the proposal [1]			Poverty status of all families with children [2]			Poverty status of families affected by the proposal [1]			Poverty status of all families with children [2]		
	Poor	Nonpoor	Total	Poor	Nonpoor	Total	Poor	Nonpoor	Total	Poor	Nonpoor	Total
Before Mandating a Minimum Benefit												
Number of families (millions)	1.4	0.5	1.9	5.7	26.9	32.6	1.9	0.8	2.8	5.7	26.9	32.6
Percent	73.3	26.7	100.0	17.5	82.5	100.0	69.9	30.1	100.0	17.5	82.5	100.0
Poverty gap (billions of dollars)	7.4	....	7.4	24.8	....	24.8	9.0	....	9.0	24.8	....	24.8
After Mandating a Minimum Benefit												
Number of families (millions)	1.3	0.6	1.9	5.6	27.0	32.6	1.7	1.0	2.8	5.5	27.1	32.6
Percent	70.3	29.7	100.0	17.3	82.7	100.0	62.6	37.4	100.0	16.9	83.1	100.0
Poverty gap (billions of dollars)	5.8	....	5.8	23.2	....	23.2	5.1	....	5.1	20.8	....	20.8
Change												
Number of families (millions)	−0.1	0.1	....	−0.1	0.1	....	−0.2	0.2	....	−0.2	0.2	....
Percent	−4.1	11.2	....	−1.0	.2	....	−10.5	24.4	....	−3.6	.8	....
Poverty gap (billions of dollars)	−1.6	....	−1.6	−1.6	....	−1.6	−3.9	....	−3.9	−3.9	....	−3.9
Percent	−22.0	....	−22.0	−6.6	....	−6.6	−43.6	....	−43.6	−15.9	....	−15.9

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[1] Numbers of families are those on AFDC at any time during the year. Because some families affected by the proposal are on AFDC only part of the year, the numbers of families shown here are greater than those on an average monthly basis shown in Table 2-10.

[2] For all families with children, poverty counts and rates before mandating a minimum benefit level are published estimates for 1982. See Department of Commerce, Bureau of the Census, "Characteristics of the Population Below the Poverty Level: 1982" (Current Population Reports, Consumer Income, Series P-60, No. 144, March 1984).

Source: Congressional Budget Office.

CHAPTER III. EXTENDING BENEFITS TO TWO-PARENT FAMILIES

Two-parent families are currently eligible for Aid to Families with Dependent Children only if their principal earner is unemployed or works fewer than 100 hours a month and if they live in a state that has an AFDC-unemployed parent (UP) program. The Omnibus Anti-Poverty Act would require states to extend benefits to all two-parent families whose incomes were low enough to qualify for AFDC, and would increase the federal financing share to 75 percent for payments to all two-parent families.

The total cost of extending benefits to two-parent families is estimated to be $1.5 billion in 1986 (see Table 3-1). Most of the cost would be borne by the federal government because of the increase in the federal financing share. An estimated 450,000 two-parent families would become eligible and begin to participate.

TABLE 3-1.—TOTAL COSTS OF EXTENDING AFDC BENEFITS TO TWO-PARENT FAMILIES

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
Federal	1.3	1.3	1.4	1.4	1.4
State	.2	.2	.3	.3	.4
Total	1.5	1.5	1.6	1.7	1.8

Note: Costs include those in the AFDC, Medicaid, Food Stamp, and General Assistance programs. Costs, or savings, for each program are shown in Table 3-5.

Source: Congressional Budget Office.

AID TO TWO-PARENT FAMILIES IN AFDC

Only single-parent families were originally eligible for AFDC, unless the second parent was incapacitated. Since 1961, however, states have been permitted to give AFDC to two-parent families in which a parent is unemployed or works fewer than 100 hours a month. Twenty-four states and the District of Columbia now provide benefits to UP families.[1] In fiscal year 1984, 285,000 UP families received benefits averaging $468 each month. The UP families accounted for 7.7 percent of all AFDC families in 1984.

Two-parent working families and many two-parent unemployed families with low incomes are excluded from AFDC (and from Medicaid, which uses the same categorical eligibility criteria as AFDC).[2] Thus, single-parent families in some states can have higher incomes from welfare than two-parent families have from work, creating both inequities and incentives for families to split.

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[1] The states that now provide UP benefits are California, Colorado, Connecticut, Delaware, District of Columbia, Hawaii, Illinois, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, New Jersey, New York, Ohio, Pennsylvania, Rhode Island, Vermont, Washington, West Virginia, and Wisconsin.

Under H.R. 4920, AFDC benefits would be extended to all two-parent families whose incomes were low enough to qualify for the program. All requirements relating to unemployment, hours of work, or previous labor force attachment would be abolished. States would be allowed to set benefits below those given to single-parent families but not below the required minimum benefit (discussed in the preceding chapter). States would also be allowed to limit benefits to as few as 6 months of each year and to set stricter work requirements for two-parent than for single-parent families.

The federal financing share for payments to two-parent families would be set at 75 percent or at current law if current law were greater than 75 percent. Currently, the federal financing share may be as low as 50 percent. States that now have UP programs would thus have their expenditures for these programs reduced; they could have lower or higher costs following expansion of benefits to all two-parent families. States that currently do not have UP programs would have added costs equal to 25 percent of payments to two-parent families.

Costs and Effects of Extending Benefits to Two-Parent Families

Because of the flexibility given to states in H.R. 4920 in the setting of benefit duration and amounts for two-parent families, costs cannot be known precisely. In estimating costs, CBO has assumed that states would give the same benefits to two-parent families as those given to single-parent families under current law. In a later chapter on interactions among H.R. 4920's provisions, the cost of extending benefits to two-parent families using the required minimum benefit is discussed.

For purposes of its cost estimates, CBO has assumed that states would provide benefits to new two-parent families for only 6 months, the minimum required in the bill, but that states with UP programs now would continue to provide benefits to UP families for 12 months. Some states might choose to give two-parent families benefits for more than 6 months, which could add considerably to costs. For example, if all states were to give benefits for 12 months of each year, AFDC costs in 1986 would rise from $1.1 billion to $1.9 billion. On the other hand, states that now have UP programs would have to provide similar benefits to all two-parent families, possibly leading to a limitation in benefits to UP families to fewer than 12 months, reducing costs somewhat.

EFFECTS ON FAMILIES

All of the families affected by the extension of AFDC benefits to two-parent families would be newly eligible and participating families. Just under 450,000 new families would receive an estimated

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[2] While the adults in two-parent families cannot receive Medicaid, some of the children can under current law.

$199 a month on average over the year, or $2,390 for the year (see Table 3-2). For the six months during which they were assumed to receive AFDC, their monthly benefits would average $397. As was true for the minimum benefit provision, there is considerable uncertainty in estimating the number of newly eligible and participating families, and this is even more the case for two-parent than for single-parent families, as is discussed in Chapter VIII.

TABLE 3-2. EFFECTS ON FAMILIES OF EXTENDING AFDC BENEFITS TO TWO-PARENT FAMILIES, 1986

	Families affected[1]	
	Number (millions)	Average monthly benefit increase[2] (dollars)
New families	0.4	199

[1] Some of these families would receive reduced General Assistance, partially offsetting the increased AFDC.
[2] Families are assumed to receive an average $397 a month for six months, or $199 a month averaged over 12 months.

Source: Congressional Budget Office.

EFFECTS ON POVERTY

Extending benefits to two-parent families would raise the incomes of 0.5 million poor families (see Table 3-3). The poverty gap for two-parent families affected by the proposal would decline by 21.5 percent, from $3.8 billion to $2.9 billion. The poverty rate for these 0.9 million families affected by the proposal would decline 6.2 percent—from 61.3 percent to 57.6 percent. Because most of the families affected by the proposal would have incomes part of the year, their poverty gaps and poverty rates would tend to be lower than for AFDC families in general. For all families with children, the poverty rate would decline by 0.6 percent. Their poverty gap would decline by 3.3 percent.

EFFECTS ON REGIONS

The number of families affected would be distributed fairly evenly among the regions. The Northeast with 20 percent would have the fewest and the West with 30 percent, the most (see Table 3-4). But costs in AFDC—both federal and state—would be distributed less evenly because of the variation among regions in average benefit levels. The South, where benefits are low, would account for 12 percent of costs and the West, where benefits are high, for 39 percent.

TABLE 3-3.—ESTIMATED EFFECTS ON POVERTY OF EXTENDING AFDC BENEFITS TO TWO-PARENT FAMILIES, 1986

	Poverty status of families affected by the proposal [1]			Poverty status of all families with children [2]		
	Poor	Nonpoor	Total	Poor	Nonpoor	Total
			Before Extending Benefits			
Number of families (millions)	0.5	0.3	0.9	5.7	26.9	32.6
Percent	61.3	38.7	100.0	17.5	82.5	100.0
Poverty gap (billions of dollars)	3.8	....	3.8	24.8	....	24.8
			After Extending Benefits			
Number of families (millions)	.5	.4	.9	5.7	26.9	32.6
Percent	57.6	42.4	100.0	17.4	82.6	100.0
Poverty gap (billions of dollars)	2.9	....	2.9	24.0	....	24.0
			Change			
Number of families (millions)	(3)	(3)	....	(3)	(3)	....
Percent	−6.2	9.8	....	−.6	.1	....
Poverty gap (billions of dollars)	−.8	....	−.8	−.8	....	−.8
Percent	−21.5	....	−21.5	−3.3	....	−3.3

[1] Numbers of families are those on AFDC at any time during the year. Because some families affected by the proposal are on AFDC only part of the year, the number of families shown here (0.9 million) is greater than the 0.4 million on an average monthly basis shown in Table 3-2.

[2] For all families with children, poverty counts and rates before extending benefits to two-parent families are published estimates for 1982. See Department of Commerce, Bureau of the Census, "Characteristics of the Population Below the Poverty Level: 1982" (Current Population Reports, Consumer Income, Series P-60, No. 144, March 1984).

[3] Less than 50,000 families.

Source: Congressional Budget Office.

TABLE 3-4.—EFFECTS OF EXTENDING AFDC BENEFITS TO TWO-PARENT FAMILIES, BY REGION IN 1986

Region [1]	Total AFDC costs		Families affected		
	Amount (billions)	Percent of total	Number (millions)	Percent of total	Average monthly benefit increase
North Central	$0.3	28	0.1	26	$212
Northeast	.2	22	.1	20	217
South	.1	12	.1	24	99
West	.4	39	.1	30	256
Total	1.1	100	.4	100	199

[1] North Central—Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin; Northeast—Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont; South—Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia; West—Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

Source: Congressional Budget Office.

The portion of costs financed by each state would vary considerably. Because of the increased federal financing share, states who now have a UP program could save. States who do not have a UP program would have higher expenditures. Many of these states are in the southern and western regions. Moreover, all states would have higher Medicaid expenditures, although they would save in their General Assistance programs.

EFFECTS ON FOOD STAMPS, MEDICAID, AND GENERAL ASSISTANCE

Adults in two-parent families, and many of their children, are not eligible for Medicaid unless they are UP families living in states with an AFDC-UP program. With eligibility for AFDC, those people in the new two-parent families not currently receiving Medicaid would now become eligible. These families were assumed to receive AFDC and Medicaid for only 6 months of each year. However, their benefits—and Medicaid costs—would be higher if they could reschedule some of their health expenditures to take place during the six months they were on Medicaid. Some additional families not receiving AFDC would become eligible for the medically needy program, which uses the same categorical eligibility criteria as regular Medicaid, adding 16 percent to Medicaid costs of the proposal.

Resulting Medicaid costs are estimated to be $0.8 billion in 1986, rising to $1.0 billion in 1990 (see Table 3-5). If states were to provide benefits to all two-parent families for a full 12 months—instead of for six months—Medicaid costs would rise to $1.6 billion in 1986 and $2.0 billion in 1990.

TABLE 3-5.—TOTAL COSTS OF EXPANDING AFDC BENEFITS TO TWO-PARENT FAMILIES, BY PROGRAM

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
Federal costs:					
AFDC	1.1	1.2	1.2	1.2	1.2
Food stamps	−.3	−.3	−.3	−.3	−.3
Medicaid	.4	.5	.5	.5	.6
General assistance					
Subtotal	1.3	1.3	1.4	1.4	1.4
State costs:					
AFDC	−.1	([1])	([1])	([1])	([1])
Food stamps					
Medicaid	.4	.4	.4	.4	.5
General assistance	−.1	−.1	−.1	−.1	−.1
Subtotal	.2	.2	.3	.3	.4

TABLE 3-5.—TOTAL COSTS OF EXPANDING AFDC BENEFITS TO TWO-PARENT FAMILIES, BY PROGRAM—Continued

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
Total costs:					
AFDC	1.1	1.1	1.1	1.2	1.2
Food stamps	−.3	−.3	−.3	−.3	−.3
Medicaid	.8	.8	.9	.9	1.0
General assistance	−.1	−.1	−.1	−.1	−.1
Total	1.5	1.5	1.6	1.7	1.8

[1] Less than $50 million in savings or in costs.

Source: Congressional Budget Office.

Two-parent families are eligible for the Food Stamp program. With the rise in their incomes caused by the receipt of AFDC, their food stamp benefits would fall. An estimated $0.3 billion would be saved in the Food Stamp program in 1986.

General Assistance (GA) is the name given to state-funded welfare programs that provide benefits to individuals and families who do not qualify for AFDC and Supplemental Security Income. The GA programs vary considerably among the states in terms of both eligibility requirements and benefit levels. Some states have very limited programs—for example, aiding mostly the disabled—while others have broader programs covering low-income families and individuals generally. Some provide ongoing cash payments while others provide vouchers or one-time cash payments.

The two-parent families who could be affected by the extension of benefits in AFDC might be receiving GA. If so, there would be savings to states from reduced expenditures in the GA programs. While information on these programs is sketchy at best, CBO estimates that about 75,000 of the affected two-parent families would have received GA and that states would save an estimated $0.1 billion in GA in 1986 from the extension of AFDC benefits to two-parent families.[3]

OTHER ADJUSTMENTS TO COSTS

Certain costs or savings have not been included in the cost estimates presented in this chapter. Although these cost adjustments have important implications for the entire package of proposals (see Chapter VII), they are less important when analyzing the proposals individually. These adjustments must be considered, however, in analysis of the option to extend benefits to two-parent families, where the number of new beneficiaries would be large.

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[3] Medical care provided under General Assistance is not included in these estimates because of the lack of data. Thus the savings to states in GA are probably understated.

To arrive at a final cost, three adjustments should be made to the estimates. First, savings would result from the gradual, rather than immediate, participation of newly eligible families during 1986 and 1987; in 1986, such savings would total $0.6 billion and in 1987, $0.1 billion. Second, costs to cover administration of the new AFDC and Medicaid cases would add $0.1 billion in 1986 and $0.3 billion in 1990. Finally, costs to cover reduced work effort—and thus higher AFDC benefits—of the new beneficiaries would add $0.1 billion in 1986 and in 1990.

An Alternative Expansion of Benefits to Two-Parent Families

A less costly alternative that would expand benefits to some two-parent families would be to mandate the AFDC-UP program in all states. Such an expansion, however, would benefit only families in which the principal earner was unemployed or worked fewer than 100 hours a month.

Total costs of mandating the AFDC-UP program—in AFDC, Food Stamps, and Medicaid—are estimated to be $0.4 billion in 1986. The share of both the federal government and the states would be $0.2 billion (see Table 3-6). This estimate assumes that eligibility rules would be the same as they are now with respect to hours of work and previous labor force attachment.

TABLE 3-6.—TOTAL COSTS OF MANDATING AN AFDC-UNEMPLOYED PARENT PROGRAM IN ALL STATES, BY PROGRAM

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
Federal costs:					
AFDC	0.1	0.1	0.1	0.1	0.2
Food stamps	–.1	–.1	–.1	–.1	–.1
Medicaid	.1	.1	.2	.2	.2
Subtotal	.2	.2	.3	.3	.3
State costs:					
AFDC	.1	.1	.1	.1	.1
Food stamps					
Medicaid	.1	.1	.1	.1	.1
Subtotal	.2	.2	.2	.2	.2
Total costs:					
AFDC	.2	.2	.2	.2	.2
Food stamps	–.1	–.1	–.1	–.1	–.1
Medicaid	.2	.2	.3	.3	.3
Total	.4	.4	.4	.4	.5

Note.—General Assistance is not included in this table because savings to states in that program would be less than $50 million.

Source: Congressional Budget Office.

TABLE 3-7.—ESTIMATED EFFECTS ON POVERTY OF MANDATING AN AFDC-UNEMPLOYED PARENT PROGRAM IN ALL STATES, 1986

	Poverty status of families affected by the proposal [1]			Poverty status of all families with children [2]		
	Poor	Nonpoor	Total	Poor	Nonpoor	Total
Before Mandating AFDC-UP						
Number of families (millions)	0.1	0.1	0.1	5.7	26.9	32.6
Percent	55.5	44.5	100.0	17.5	82.5	100.0
Poverty gap (billions of dollars)	.4		.4	24.8		24.8
After Mandating AFDC-UP						
Number of families (millions)	.1	.1	.1	5.7	26.9	32.6
Percent	47.4	52.6	100.0	17.5	82.5	100.0
Poverty gap (billions of dollars)	.3		.3	24.6		24.6
Change						
Number of families (millions)	(3)	(3)		(3)	(3)	
Percent	−14.5	18.0		−.2	.0	
Poverty gap (billions of dollars)	−.1		−.1	−.1		−.1
Percent	−31.4		−31.4	−.6		−.6

[1] Numbers of families are those on AFDC at any time during the year. Because some families affected by the proposal are on AFDC only part of the year, the number of families shown here (0.1 million) is slightly greater than the 75,000 on an average monthly basis shown earlier in this section.

[2] For all families with children, poverty counts and rates before mandating a UP program are published estimates for 1982. See Department of Commerce, Bureau of the Census, "Characteristics of the Population Below the Poverty Level: 1982" (Current Population Reports, Consumer Income, Series P-60, No. 144, March 1984).

[3] Less than 50,000 families.

Source: Congressional Budget Office.

An estimated 75,000 families would become eligible for AFDC and begin to participate. Their average monthly benefits are estimated to be $228 in 1986 assuming that they would be eligible for 12 months of benefits each year.

If the current AFDC-UP program were mandated in all states, poverty would be changed little (see Table 3-7). Fewer than 50,000 families would be moved out of poverty, although that would cause a 14.5 percent decline in the poverty rate for families affected by the proposal.

The effects of mandating the AFDC-UP program would occur primarily in the South, where few states currently have such programs.[4] Three-quarters of the southern states would be affected, accounting for 73 percent of the costs and 79 percent of the affected families (see Table 3-8). A majority of states in the West would also be affected, but they are generally states with small populations and thus would account for only 23 percent of the costs and 17 percent of the affected families.

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[4] The states currently without AFDC-UP programs are Alabama, Alaska, Arizona, Arkansas, Florida, Georgia, Idaho, Indiana, Kentucky, Louisiana, Mississippi, Montana, Nevada, New Hampshire, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, and Wyoming.

TABLE 3-8.—EFFECTS OF MANDATING THE AFDC-UNEMPLOYED PARENT PROGRAM, BY REGION IN 1986

Region	States affected		Total AFDC costs		Families affected		
	Number in region	Number affected	Amount (billions of dollars)	Percent of total	Number (thousands)	Percent of total	Average monthly benefit increase (dollars)
North Central	12	3	(2)	1	2	3	376
Northeast	9	1	(2)	3	1	1	395
South	17	13	.1	73	59	79	196
West	13	9	(2)	23	13	17	330
Total	51	26	.2	100	75	100	228

[1] North Central—Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin,
Northeast—Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont;
South—Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia;
West—Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

[2] Less than $50 million.

Source: Congressional Budget Office.

CHAPTER IV. INCREASING DEDUCTIONS FROM INCOME

In the Aid to Families with Dependent Children program, a family's benefits are determined by subtracting its countable income from the state's AFDC maximum payment level. For example, if a family's countable income were $100 and the state's maximum payment were $350, the family's AFDC benefit would be $250. Unearned income other than $50 a month of child support payments is counted in full; that is, a dollar of unearned income reduces AFDC benefits by a dollar. Earned income, however, is reduced by a number of deductions: a flat $75; actual child care expenses up to $160 per child; $30 for the first 12 months of earnings; and one-third of remaining earnings after other deductions for the first 4 months of earnings. These current deductions had been reduced in the Omnibus Budget Reconciliation Act of 1981 and partially restored in the Deficit Reduction Act of 1984. The Omnibus Anti-Poverty Act would alter the deductions to provide $50 and one-quarter of net earnings with no time limit and to substitute for the flat $75 a deduction equal to 20 percent of gross earnings up to $175, among other changes.

The costs of such changes would total an estimated $0.5 billion in the AFDC, Medicaid, and Food Stamp programs in 1986 (see Table 4-1). The federal share would be $0.2 billion and the share of states and localities, $0.3 billion. About 155,000 current AFDC families would receive higher benefits, 60,000 would receive lower benefits for some portion of the year, and 190,000 families would become newly eligible and begin to participate.

TABLE 4-1.—TOTAL COSTS OF INCREASING DEDUCTIONS FROM INCOME IN AFDC

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
Federal	0.2	0.2	0.2	0.2	0.3
State	.3	.3	.3	.3	.3
Total	.5	.5	.5	.6	.6

Note.—Costs include those in the AFDC, Medicaid, and Food Stamp programs. Costs, or savings, in these programs are shown in Table 4-7.

Source: Congressional Budget Office.

INCOME DEDUCTIONS IN AFDC

Since 1967, the AFDC program—and major proposals for reform of AFDC—have included differential treatment of unearned and earned income. Only limited, if any, deductions have been allowed from unearned income, while a number of deductions have been allowed from earnings. Earnings deductions are thought to be beneficial for two reasons. First, it is suggested that those who earn more should take home more, particularly relative to families with no earnings.[1] Second, it is argued that incentives to work would be enhanced; for example, with no deductions an additional dollar of earnings would reduce AFDC benefits by a full dollar, leaving the family with no more income than if the parent had not worked. On the other hand, higher levels of earnings deductions would cause AFDC costs to be higher, and would increase the number of families who would be subject to AFDC's high benefit reduction (tax) rates.

Since the 1960s, Congress has enacted, in three separate pieces of legislation, significant changes in the AFDC income deductions. In July 1967, earnings deductions were increased, followed by a cutback in 1981 and partial restoration in 1984. Deductions from earnings are currently much less generous than in the period following 1967, but deductions from unearned income are more generous, as discussed below.

From July 1967 to October 1981, actual child care and other work-related expenses, as well as $30 plus one-third of gross earnings after deducting the $30, could be deducted from earnings. In determining eligibility for AFDC, however, the $30 and one-third deductions could not be used, even though they were used to determine benefits if the family was eligible. Before 1967, only work-related expenses were deducted.

To simplify discussion of the effects on families of increasing deductions from income, CBO's analysis focused on a family of three, which has earnings and deductions approximately equal to actual averages for all AFDC families. The calculation of countable earnings, AFDC benefits, and maximum income levels for eligibility for a family of three from 1967 to 1981 are shown in the first column of Table 4-2. The marginal benefit reduction rate—the percentage of additional earnings that are "taxed away" through a decrease in AFDC benefits—was 67 percent of net earnings (1.00 − .33 = .67); a $1 increase in net earnings resulted in a 67 cent decrease in AFDC benefits.[2] The average benefit reduction rate, however, was much lower because of deductions for child care and work-related expenses. The illustrative family with gross earnings of $380 lost only $40 in AFDC benefits, for an average benefit reduction rate of only 11 percent (40/380 = .11).[3] Because of these deductions, the income level at which a family would lose AFDC eligibility (the income cutoff point or "breakeven" level) could be well above a state's maximum payment level: in CBO's illustration, $700 with no child care and average work-related expenses, or $850 with $100 of child care and average work-related expenses, compared with a $355 maximum AFDC payment level.[4] The higher the income cutoff point, the more families are eligible for AFDC.

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[1] This has commonly been called vertical equity of a means-tested transfer system.

[2] The marginal benefit reduction rate on gross, rather than net, earnings was below 67 percent because actual expenses such as taxes could be fully deducted in determining AFDC benefits. In some states, where maximums are placed on payment levels or where payments equal a percentage of the difference between countable income and the need standard, average and marginal benefit reduction rates are lower than those shown in Table 4-2.

[3] Cumulative benefit reduction rates may be higher if AFDC families also receive food stamps or subsidized housing—benefits that also decline as a family's income increases. Moreover, a family's disposable income might decline even more to the extent that work-related expenses eat up part of the earnings and cannot be fully deducted in determining AFDC benefits. For examples of the effect of changes in earnings on disposable income, see Subcommittee on Oversight and Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, U.S. House of Representatives, "Families in Poverty: Changes in the 'Safety Net' " (September 1984).

TABLE 4-2.—CHANGES IN THE TREATMENT OF EARNINGS DEDUCTIONS IN AFDC: AN ILLUSTRATIVE FAMILY OF THREE

[In dollars]

	1967-81	1981-84		Current law		
		Months 1-4	After 4 months	Months 1-4	Months 5-12	After 12 months
Calculation of Countable Earnings						
Gross earnings	380	380	380	380	380	380
Less deductions:						
Work-related expenses	−95	−55	−55	−75	−75	−75
Child care expenses	−100	−100	−100	−100	−100	−100
$30	−30	−30		−30	−30	
One-third	−115	−65		−60		
Equals countable earnings	40	130	225	115	175	205
Calculation of AFDC Benefits						
Maximum AFDC payment	355	355	355	355	355	355
Less countable earnings	−40	−130	−225	−115	−175	−205
Equals AFDC benefits	315	225	130	240	180	150
Maximum Income Level for Eligibility (Income Cutoff Point)[1]						
With $100 of child care expenses	850	715	510	735	560	530
With no child care expenses	700	615	410	635	460	430

[1] These maximum income levels are only for families already on AFDC. Families applying for AFDC do not receive the $30 and one-third deductions. Also, the gross income limit equal to 150 percent of the state need standard in 1981-84, and 185 percent after 1984, limits the income cutoff point.

The formula for calculating the income cutoff point when the one-third deduction is a percentage of earnings before other deductions (as in 1967-81) is:

(maximum AFDC payment + deductions/.67) + $30

When the one-third deduction is taken after other deductions (as in 1981 and beyond for months 1-4 of earnings), the income cutoff point is:

(maximum AFDC payment/.67) + deductions + $30

When the one-third deduction is not in effect, the income cutoff point is:

maximum AFDC payment + deductions + $30 (if in effect).

Note.—The illustration is for a family of three and uses approximate average maximum payment levels in the United States for July 1984. Amounts for gross earnings, child care expenses, and 1967-81 work-related expenses are average amounts reported for AFDC families with earnings and with each type of deduction in 1979. The amount for work-related expenses in 1981-84 is the average amount reported for AFDC families with earnings in 1982. All numbers are rounded to the nearest $5.

Source: Congressional Budget Office.

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[4] With these deductions, families remained eligible for AFDC until their gross earnings equaled 150 percent of their state's maximum payment levels, plus 150 percent of child care and work-related deductions, plus $30.

The Omnibus Budget Reconciliation Act of 1981 significantly reduced the earnings deductions. A standard $75 work-related expense deduction (less than $75 for part-time work) replaced actual work-related expenses, and child care deductions were limited to $160 a month per child. The $30 and one-third deductions were limited to the first 4 months of earnings, and the one-third was calculated as a percentage of earnings after, rather than before, the deductions for work-related expenses and child care. In addition, a gross income limit was enacted; no family whose gross income was more than 150 percent of its state need standard was eligible for AFDC.

These changes had a major effect on AFDC. For the illustrative family, countable earnings increased from $40 in 1967-1981 to $130 in the first 4 months of earnings and to $225 thereafter (see the second and third columns of Table 4-2). The marginal benefit reduction rate rose to 100 percent after 4 months; that is, a $1 increase in earnings resulted in a $1 decrease in AFDC benefits. The average benefit reduction rate rose sharply from 11 percent to 34 percent during the first 4 months of earnings and to 59 percent thereafter. AFDC benefits declined from $315 to $225 and then to $130 after 4 months. Income cutoff points fell significantly, and at least 250,000 single-parent families with earnings who had been receiving AFDC became ineligible. The percentage of AFDC families with earnings fell from 12 percent in 1979 to 6 percent in 1982, and of those with earnings in 1982 only 23 percent worked full time.

In 1984, the earnings deductions were partially restored by Congress in the Deficit Reduction Act. The time limit on the $30 deduction was extended from 4 months to 12 months, a full $75 standard deduction was given to families with a part-time worker, and the gross income limit was raised to 185 percent of the state need standard. For families with a parent working part-time or with a parent who had worked less than 12 months, AFDC benefits increased slightly (see the last three columns of Table 4-2). The marginal benefit reduction rate remained at 100 percent after 4 months, however, and average benefit reduction rates remained unchanged or only slightly lower (54 percent rather than 59 percent).

The Deficit Reduction Act also affected the countable portion of unearned income, which had been 100 percent. Under the law, up to $50 a month in actual child support—that is, support paid by absent parents to their children—would not be counted, a provision that affected an estimated 350,000 AFDC families.

COSTS AND EFFECTS OF INCREASING INCOME DEDUCTIONS

Costs associated with each provision of H.R. 4920 pertaining to income deductions are shown in Table 4-3 and discussed in turn. These cost estimates assume that each provision would be enacted alone.

TABLE 4-3.—TOTAL COSTS OF VARIOUS PROVISIONS IN H.R. 4920 TO INCREASE DEDUCTIONS FROM INCOME

[By fiscal year, in millions of dollars]

	1986	1987	1988	1989	1990
Deduct 20 percent of gross earnings up to $175:					
Federal	15	25	30	30	35
State	20	25	30	40	50
Total	35	50	60	70	85
Cap a family's child care deduction at $320:					
Federal	(1)	(1)	(1)	(1)	(1)
State	(1)	(1)	(1)	(1)	(1)
Total	(1)	(1)	(1)	(1)	(1)
Deduct $50 and one-quarter percent of net earnings:					
Federal	105	105	110	120	120
State	130	145	150	150	160
Total	235	250	260	270	280
Eliminate gross income limit:					
Federal	10	10	10	10	10
State	15	15	15	15	15
Total	25	25	25	25	25
Deduct earned income tax credit:					
Federal	5	5	5	5	5
State	10	10	10	10	10
Total	15	15	15	15	15
Deduct $50 of unemployment compensation:					
Federal	15	15	15	20	20
State	15	15	15	20	20
Total	30	30	30	40	40
Total: [2]					
Federal	195	215	225	240	255
State	260	275	290	310	325
Total	455	490	515	550	580

[1] Less than $5 million.

[2] Total costs are greater than the sum of the separate provisions because of interactions among the provisions.

Note.—Costs include those in the AFDC, Medicaid, and Food Stamp programs. Costs, or savings, in these programs are shown in Table 4-7.

Source: Congressional Budget Office.

Deduct 20 percent of gross earnings up to $175

Instead of the $75 standard deduction, 20 percent of gross earnings up to $175 would be deducted. An estimated 110,000 families with earnings of less than $375 a month would have lower AFDC benefits under this proposal ($375 x .2 = $75), and an estimated 105,000 families with larger earnings would gain. This provision would cost an estimated $35 million in 1986. Costs would rise to $85 million by 1990 because, as family earnings increased over time, more families would gain and fewer would lose, and their gains would grow and their losses decline.

Cap the child care deduction

The child care deduction would be capped at $320 per family. Fewer than 2,000 families are estimated to be affected by this provision, and savings would be insignificant.

Deduct $50 and one-quarter percent of net earnings

The bill's major change relating to deductions would be to provide deductions from earnings of $50 and one-quarter of remaining earnings after the deductions for child care and work-related expenses. The proposed deductions would have no time limit and would replace the $30 and one-third deductions. Also, they would be used in determining eligibility for AFDC, not just benefits as in current law.[5] An estimated 125,000 current AFDC families would gain. An estimated 45,000 families, who would have received the $30 and one-third deductions during their first 4 months of earnings but who would now receive the $50 and one-quarter deductions, would lose. Another 115,000 would become eligible and begin to participate, one-half because of the increased deductions and one-half because the $50 and one-quarter would be used in determining eligibility. Costs of this provision would total an estimated $235 million in 1986.

Eliminate the gross income limit

The gross income limit equal to 185 percent of the state need standard would be eliminated. An estimated 10,000 families would become eligible and begin to participate, resulting in 1986 costs of $25 million.

Deduct the earned income tax credit

Currently, the Earned Income Tax Credit (EITC) is counted as income in AFDC, and reduces AFDC benefits.[6] One of H.R. 4920's provisions would disregard the EITC in determining AFDC benefits. This provision would cost an estimated $15 million in 1986 and would affect some 55,000 families.

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[5] Currently, there are several steps in determining both eligibility and benefits for AFDC. First, the family's income must fall below the gross income limit equal to 185 percent of the state need standard. A second eligibility test is whether countable income is less than the state need standard; for this purpose, the $30 and one-third deductions cannot be used to reduce earnings. If eligible, the family's benefits are then determined by subtracting countable income, which is reduced by the $30 and one-third deductions, from the state maximum payment level.

[6] The EITC increases after-tax incomes of families with working parent(s) and low earnings by reducing their tax payments or making a direct payment to those whose tax liabilities are smaller than their EITC.

Deduct $50 of unemployment compensation

A final provision would allow unemployment compensation to be counted only partially in determining AFDC benefits; now, unemployment compensation is counted in full like all unearned income. Specifically, up to $50 a month in unemployment compensation would be disregarded, as is now being done for child support payments.[7] Estimated costs of this proposal would total $30 million in 1986; about 40,000 families would be affected.

Total provisions

If these provisions were enacted jointly, total costs would be much greater than the sum of costs for each separate provision. In 1986, for example, costs of the full package are estimated to total $455 million, compared with a sum of only $340 million for the separate provisions (see the bottom line of Table 4-3). Many interactions occur among the provisions, but the most important is between the $50 and one-quarter percent deductions and the deduction of 20 percent of gross earnings. Families made newly eligible by the $50 and one-quarter change would receive much higher AFDC benefits each month because of the 20 percent deduction. Many of these families would be in states that pay high benefits, would have high earnings, and as a result would qualify for the maximum deduction of $175 for work-related expenses compared with only a $75 deduction under current law. Also, many families who would not be eligible for AFDC on the basis of any one change would become eligible with the package of changes.

EFFECT ON FAMILIES

If income deductions were increased, about 155,000 families currently receiving AFDC would receive higher benefits averaging $69 a month ($830 a year) in 1986, as shown in Table 4-4. Current families account for 45 percent of the families who would gain from these changes. The remaining 55 percent would be newly eligible (and participating) families, numbering about 190,000. Each of the provisions, other than capping the child care deduction, would create newly eligible families. Most would become newly eligible because of the elimination of the time limit on the $50 and one-quarter deductions and their application in eligibility determinations. The AFDC benefits of these newly eligible families would average about $116 a month, or $1,390 a year.

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[7] At the request of the Committee on Ways and Means staff, the provision considered here differs from that in H.R. 4920, which proposed the treatment of unemployment compensation as earnings.

TABLE 4-4.—EFFECTS ON FAMILIES OF INCREASING DEDUCTIONS FROM INCOME, 1986

	Families that would gain			Families that would lose		
	Number (in thousands)	Percent of total	Average monthly benefit increase (in dollars)	Number (in thousands)	Percent of total	Average monthly benefit decrease (in dollars)
Current AFDC families	155	45	69	60	100	15
New families	190	55	116			
Total	345	100	95	60	100	15

Source: Congressional Budget Office.

Some current AFDC families affected by the changed income deductions would experience a loss, however. About 60,000 families are estimated to lose an average of $15 each month, or $180 a year, in AFDC benefits in 1986. These losses would occur among families with consistently low monthly earnings; for example, a family with less than $100 of earnings each month would be made somewhat worse off. Most of the families experiencing a loss would probably be those who are on AFDC only for short periods of time and who would be worse off during their first 4 months of earnings.

Compared with current law, the illustrative three-person family would receive AFDC benefits equal to those received during the first 4 months of earnings but well above those received after loss of the one-third deduction (see Table 4-5). Families with earnings would face quite different benefit reduction rates than at present. For most families, marginal benefit reduction rates would decline from 100 percent of gross earnings to 60 percent; a $1 increase in earnings would result in a 60 cent decrease in AFDC benefits.[8] This marginal benefit reduction rate would be similar to that on gross earnings in effect between 1967 and 1981. The average benefit reduction rate for the illustrative family would be 30 percent (115/380=.3), higher than in the 1967-1981 period but well below the current rate. The income cutoff point would be below that in 1967 and earlier but above the current cutoff point.

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[8] For each additional dollar of earnings, 20 cents would be deducted for work-related expenses and 20 cents would be deducted for the one-quarter rule ($1.00 - $.20 = $.80 x .25 = $.20), leaving a 60 cent decrease in AFDC benefits.

TABLE 4-5.—THE TREATMENT OF AFDC EARNINGS DEDUCTIONS IN H.R. 4920: AN ILLUSTRATIVE FAMILY OF THREE

[In dollars]

Calculation of Countable Earnings	
Gross earnings	380
Less deductions:	
Work-related expenses	−75
Child care expenses	−100
$50	−50
One-quarter of remainder	−40
Equals countable earnings	115
Calculation of AFDC Benefits	
Maximum AFDC payment	355
Less countable earnings	−115
Equals AFDC benefits	240
Maximum Income Level for Eligibility (Income Cutoff Point) [1]	
With $100 of child care expenses	780
With no child care expenses	655

[1] Calculation of the income cutoff point is complicated by the dependence of the work-related expense deduction on income. The formula would be:

(Maximum AFDC payment/.6) + 1.25 (child care deduction + $50)

Note.—The illustration is for a family of three and uses approximate average maximum payment levels in the United States for July 1984. Amounts for gross earnings, child care expenses, and 1967–81 work-related expenses are average amounts reported for AFDC families with earnings and with each type of deduction in 1979. The amount for work-related expenses in 1981–84 is the average amount reported for AFDC families with earnings in 1982. All numbers are rounded to the nearest $5.

Source: Congressional Budget Office.

EFFECTS ON POVERTY

Increasing deductions from income would reduce the poverty rate of those families affected by the proposal by 6.7 percent in 1986 (see Table 4-6). Some 0.7 million poor families would be affected, and just under 50,000 would receive benefit increases large enough to move them out of poverty. Slightly more than one-half of the affected families would be poor, a relatively small percentage because all of the affected families would have incomes.

TABLE 4-6.—ESTIMATED EFFECTS ON POVERTY OF INCREASING DEDUCTIONS FROM INCOME, 1986

	Poverty status of families affected by the proposal [1]			Poverty status of all families with children [2]		
	Poor	Nonpoor	Total	Poor	Nonpoor	Total
Before Increasing Deductions						
Number of families (millions)	0.7	0.6	1.2	5.7	26.9	32.6
Percent	54.7	45.3	100.0	17.5	82.5	100.0
Poverty gap (billions of dollars)	2.1		2.1	24.8		24.8

TABLE 4-6.—ESTIMATED EFFECTS ON POVERTY OF INCREASING DEDUCTIONS FROM INCOME, 1986—Continued

	Poverty status of families affected by the proposal [1]			Poverty status of all families with children [2]		
	Poor	Nonpoor	Total	Poor	Nonpoor	Total
After Increasing Deductions						
Number of families (millions)	0.6	0.6	1.2	5.7	26.9	32.6
Percent	51.1	48.9	100.0	17.3	82.7	100.0
Poverty gap (billions of dollars)	1.9		1.9	24.6		24.6
Change						
Number of families (millions)	(3)	(3)			(3)	(3)
Percent	−6.7	8.1		−0.8	0.2	
Poverty gap (billions of dollars)	−0.2		−0.2	−0.2		−0.2
Percent	−9.3		−9.3	−0.8		−0.8

[1] Numbers of families are those on AFDC at any time during the year. Because some families affected by the proposal are on AFDC only part of the year, the number of families shown here (1.2 million) is greater than the 0.4 million on an average monthly basis shown in Table 4-4.

[2] For all families with children, poverty counts and rates before increasing the deductions from income are published estimates for 1982. See Department of Commerce, Bureau of the Census, "Characteristics of the Population Below the Poverty Level: 1982" (Current Population Reports, Consumer Income, Series P-60, No. 144, March 1984).

[3] Less than 50,000 families.

Source: Congressional Budget Office.

The poverty gap would decline by $0.2 billion. Only 54 percent of the proposal's costs would go to poor families. For all families with children, both the poverty rate and the poverty gap, would decline by 0.8 percent.

EFFECTS ON FOOD STAMPS AND MEDICAID

With the rise in their AFDC benefits, families would find their food stamp benefits reduced. Some $105 million of the costs in AFDC would be offset by savings in the Food Stamp program in 1986 (see Table 4-7).

Medicaid costs would rise as an estimated 65 percent of the new AFDC families would become eligible for Medicaid. In 1986, Medicaid is estimated to cost an additional $175 million, rising to $230 million by 1990.[9]

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[9] Because of a provision in the Deficit Reduction Act of 1984, Medicaid costs of these provisions are lower than they would have been. The act extended Medicaid eligibility to families who become ineligible for AFDC when they lose the one-third deductions after 4 months of earnings. Medicaid is provided to these families for 9 months and, at state option, can be provided for another 6 months. The estimated costs of this change were deducted from the estimated Medicaid costs of the $50 and one-quarter provision in H.R. 4920.

TABLE 4-7.—TOTAL COSTS OF INCREASING DEDUCTIONS FROM INCOME, BY PROGRAM

[By fiscal year, in millions of dollars]

	1986	1987	1988	1989	1990
Federal costs:					
AFDC	205	220	230	240	255
Food stamps	−105	−110	−115	−125	−130
Medicaid	95	105	110	125	130
Subtotal	195	215	225	240	255
State costs:					
AFDC	180	190	200	215	225
Food stamps					
Medicaid	80	85	90	95	100
Subtotal	260	275	290	310	325
Total costs:					
AFDC	385	410	430	455	480
Food stamps	−105	−110	−115	−125	−130
Medicaid	175	190	200	220	230
Total	455	490	515	550	580

Source: Congressional Budget Office.

CHAPTER V. LIBERALIZING ASSET RESTRICTIONS

Families whose incomes are low enough to qualify for Aid to Families with Dependent Children may be ineligible for the program because their assets exceed the allowed level. Under current law, the level allowed is $1,000, and most assets other than a home are counted. Increasing the allowable level to $2,250 and excluding certain assets, as in H.R. 4920, would make some families newly eligible for AFDC.

Between 45,000 and 140,000 families would begin to participate in AFDC as a result of this change. Costs would total an estimated $0.2 billion to $0.7 billion in AFDC, Medicaid, and Food Stamps in 1986 (see Table 5-1). The federal government share would be $0.1 billion to $0.3 billion and the share of states and localities, $0.1 billion to $0.4 billion. These estimates are shown in a range because they are very uncertain; reliable data on assets of low-income families are not currently available.

TABLE 5-1.—TOTAL COSTS OF LIBERALIZING ASSET RESTRICTIONS IN AFDC

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
Federal	0.1 to 0.3	0.1 to 0.3	0.1 to 0.4	0.1 to 0.4	0.1 to 0.4
State	0.1 to 0.4	0.1 to 0.4	0.1 to 0.4	0.1 to 0.4	0.1 to 0.4
Total	0.2 to 0.7	0.2 to 0.7	0.2 to 0.7	0.3 to 0.8	0.3 to 0.8

Note.—Costs include those in the AFDC, Medicaid, and Food Stamp Programs. Costs, or savings, for each program are shown in Table 5-2.

Source: Congressional Budget Office.

ASSET RESTRICTIONS IN AFDC

Families whose incomes are very low may own assets they can draw down or borrow against, helping them to meet their needs at least over the short run. For this reason, means-tested programs typically have asset tests as well as income tests. In AFDC currently, a family's assets cannot exceed $1,000 (or less at state option, though only a few states set lower levels). Only equity values are counted.[1] The home, one car with an equity value up to $1,500, and "basic maintenance items" such as clothes and furniture are not counted.[2] Life insurance is counted at its cash value. Over time, as prices have risen, the asset limit has become more restrictive in real terms.

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[1] The equity value of an asset is the market value less any debt outstanding on the asset.

[2] At state option, the allowable limit for the car may be less than $1,500, and maintenance items may be counted.

Low-income families do not own large amounts of assets. In a 1983 survey, 36 percent of families with incomes below $10,000 reported owning homes, 53 percent reported having checking accounts with a median value of $300, and 39 percent reported having savings accounts with a median value of $500.[3]

Asset holdings of AFDC families appear to be even lower. In 1979, only 18 percent owned a home, 6 percent owned life insurance that carried a cash value, 18 percent owned financial assets, and 35 percent owned a car(s).[4] Two-parent families owned more assets in each category than did single-parent families. For example, 68 percent of two-parent families owned cars compared with 25 percent of single-parent families, and 24 percent owned financial assets compared with only 17 percent of single-parent families.

Nonetheless, asset restrictions appear to make a significant number of families ineligible for AFDC. During the first three months of 1983, more than 12,000 families who applied for AFDC were denied benefits because their assets exceeded program limits. Annualized, this amounts to 50,000 families a year.[5]

In H.R. 4920, AFDC asset restrictions would be liberalized and made more consistent with asset rules in the Food Stamp program, thereby easing administration of the asset test. The allowable level would be $2,250 for most AFDC families ($3,500 for a family with two or more persons, one of whom is age 60 or over), as proposed for the Food Stamp program in the Report of the President's Task Force on Food Assistance, January 1984.[6] The home and household goods would continue to be excluded. The cash value of life insurance policies would also be excluded, following current Food Stamp rules. Cars would be treated more liberally, as in the Food Stamp program. Each car would first be evaluated to see if its market value exceeded $5,500; no market value of less than $5,500 would be counted against the overall limit.[7] Then a test for equity value would also be administered. One car would be excluded, and a second car would be excluded if it were necessary for employment. The equity value of any other cars would be assessed, and the greater of either the equity value or the market value over $5,500 would be counted against the overall asset limit.

COSTS AND EFFECTS OF LIBERALIZING ASSET RESTRICTIONS

The entire cost of liberalizing AFDC's asset restrictions would result from newly eligible families beginning to participate in the program. Current AFDC families would not be affected. The 45,000 to 140,000 newly participating families would receive on average an estimated $326 a month, or $3,910 a year, in AFDC benefits in 1986.

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[3] Robert B. Avery and others, "Survey of Consumer Finances, 1983," Federal Reserve Bulletin (September 1984).

[4] These estimates are based on the Income Survey Development Program 1979 Research Panel (Wave II). Because asset restrictions in AFDC were tightened in 1981, fewer AFDC participants probably own assets now than in 1979.

[5] Department of Health and Human Services, Social Security Administration, "Quarterly Public Assistance Statistics" (January–March 1983), p. 23.

[6] Current allowable levels in the Food Stamp program are $1,500 per household, or $3,000 if the household includes two or more persons, one of whom is age 60 or over.

[7] The limit currently used in the Food Stamp program for the market value test on cars is $4,500. The $5,500 limit was proposed in the Report of the President's Task Force on Food Assistance.

Many of these families—an estimated 65 percent—would also become newly eligible for Medicaid, adding to Medicaid costs an estimated $0.1 billion to $0.2 billion in 1986 (see Table 5–2). Asset limits in the state medically needy programs are generally higher than these proposed limits, allowing some of the new AFDC families to have previously qualified for Medicaid. Because the AFDC benefits would raise their incomes, the families eligible for food stamps—an estimated 50 percent of the new AFDC families—would receive fewer food stamp benefits. Costs in the Food Stamp program are estimated to fall by $0.1 billion or less in 1986.

TABLE 5–2.—TOTAL COSTS OF LIBERALIZING ASSET RESTRICTIONS IN AFDC, BY PROGRAM

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
Federal costs:					
AFDC	0.1 to 0.3	0.1 to 0.3	0.1 to 0.3	0.1 to 0.3	0.1 to 0.3
Food stamps	(1) to (0.1)	(1) to (0.1)	(1) to (0.1)	(1) to (0.1)	(1) to (0.1)
Medicaid	(1) to 0.1	(1) to 0.1	(1) to 0.1	(1) to 0.2	(1) to 0.2
Subtotal	0.1 to 0.3	0.1 to 0.3	0.1 to 0.4	0.1 to 0.4	0.1 to 0.4
State costs:					
AFDC	0.1 to 0.3	0.1 to 0.3	0.1 to 0.3	0.1 to 0.3	0.1 to 0.3
Food stamps					
Medicaid	(1) to 0.1	(1) to 0.1	(1) to 0.1	(1) to 0.1	(1) to 0.1
Subtotal	0.1 to 0.4	0.1 to 0.4	0.1 to 0.4	0.1 to 0.4	0.1 to 0.4
Total costs:					
AFDC	0.2 to 0.6	0.2 to 0.6	0.2 to 0.6	0.2 to 0.6	0.2 to 0.6
Food stamps	(1) to (0.1)	(1) to (0.1)	(1) to (0.1)	(1) to (0.1)	(1) to (0.1)
Medicaid	0.1 to 0.2	0.1 to 0.2	0.1 to 0.3	0.1 to 0.3	0.1 to 0.3
Total	0.2 to 0.7	0.2 to 0.7	0.2 to 0.7	0.3 to 0.8	0.3 to 0.8

[1] Less than $50 million.

Note.—Numbers in parentheses are negative quantities.

Source: Congressional Budget Office.

ALTERNATIVE ASSET LEVELS

Many alternatives to the current asset restrictions or to those proposed in H.R. 4920 exist. This section deals with two: (1) raising the limit to $1,500 from $1,000, leaving all other asset rules the same, and (2) eliminating asset restrictions.

If the asset limit in AFDC were set at $1,500—the current limit in the Food Stamp program—an estimated 10,000 to 85,000 families would become eligible for AFDC and begin to participate in the program. Costs in the AFDC program alone would range from less than $50 million to $0.3 billion in 1986 (see Table 5–3).

TABLE 5-3.—AFDC COSTS OF ALTERNATIVE LIBERALIZATIONS OF ASSET RESTRICTIONS

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
$1,500 LIMIT					
Federal	(1) to 0.2	(1) to 0.2	(1) to 0.2	(1) to 0.2	(1) to 0.2
State	(1) to 0.2	(1) to 0.2	(1) to 0.2	(1) to 0.2	(1) to 0.2
Total	(1) to 0.3	(1) to 0.4	(1) to 0.4	(1) to 0.4	0.1 to 0.4
NO LIMIT					
Federal	0.4 to 0.8	0.4 to 0.9	0.4 to 0.9	0.4 to 0.9	0.5 to 1.0
State	0.3 to 0.7	0.3 to 0.7	0.4 to 0.8	0.4 to 0.8	0.4 to 0.8
Total	0.7 to 1.5	0.8 to 1.6	0.8 to 1.7	0.8 to 1.7	0.8 to 1.8

[1] Less than $50 million.

Note.—Costs are those in AFDC alone; costs for Medicaid and Food Stamps are not included.

Source: Congressional Budget Office.

If the asset restrictions were removed, the number of families newly eligible for, and participating in, AFDC would rise significantly—by an estimated 200,000 to 425,000, or 5 percent to 12 percent of current families. AFDC costs alone would range from $0.7 billion to $1.5 billion in 1986. For both of these alternatives, Medicaid expenditures would increase by more than Food Stamp expenditures would decrease.

CHAPTER VI. REDUCING STATES' FINANCING SHARES FOR INCREASES IN AFDC BENEFITS

States and localities determine benefit levels in Aid to Families with Dependent Children and share in the program's financing with the federal government. In the aggregate, AFDC benefit levels have risen over time but by much less than the rise in prices. In constant dollars, the median maximum benefit for a four-person family with no income fell by 33 percent from July 1970 to January 1985. To encourage states and localities to raise AFDC benefits more in line with price increases, H.R. 4920 would decrease a state's financing share by 30 percent for all AFDC benefit increases.

The costs of this proposal would depend on how states responded to the incentive provided in the bill. Because their responses cannot be known—or even reliably estimated—a range of costs is shown. The minimum cost would occur if states were to increase benefits no more than under current law, retaining any savings from the lower financing shares for their normal benefit increases. Total costs would then be zero, and AFDC beneficiaries would be no better off. States would save an estimated $0.1 billion in 1986, equal to the federal government's cost (see Table 6-1). As estimated by CBO, the maximum cost would occur if states were to retain none of the savings from their lower financing shares but instead were to pass them on in the form of increased AFDC benefits.[1] Under this assumption, states would spend exactly what they would have spent under current law, and beneficiaries would be better off. Total costs—all federal—would be $0.2 billion in 1986, rising to $0.9 billion by 1990. Costs would rise sharply over time as benefit increases accumulated.

TABLE 6-1.—TOTAL COSTS OF REDUCING STATES' FINANCING SHARES FOR INCREASES IN AFDC BENEFITS

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
Federal	0.1 to 0.2	0.2 to 0.4	0.3 to 0.6	0.3 to 0.7	0.4 to 0.9
State	(0.1) to 0	(0.2) to 0	(0.3) to 0	(0.3) to 0	(0.4) to 0
Total	0 to 0.2	0 to 0.4	0 to 0.6	0 to 0.7	0 to 0.9

Note.—Numbers in parentheses are negative quantities. Costs include those in the AFDC and Food Stamp programs. (Costs, or savings, for each program are shown in Table 6–5.) Additional costs in AFDC and Medicaid for newly eligible families resulting from any increase in income cutoff levels have not been estimated; they would be relatively small, however, and costs would remain within the range shown above.

Source: Congressional Budget Office.

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[1] In theory, costs could be even higher because some states might be induced to actually spend more money than they had been spending before on benefit increases. But in practice, looking at all states in the aggregate, costs would not exceed—or probably even approach—the upper end of the range.

BENEFIT LEVELS IN AFDC OVER TIME

Aid to Families with Dependent Children is one of the few major income support programs that is not indexed; that is, in which benefits do not automatically rise with prices. Social Security, the federal guarantees in Supplemental Security Income, and food stamp benefits are all indexed, but they are also primarily federal programs. In AFDC, states set benefit levels, and the decline in maximum benefits in constant dollars has been almost universal among the states (see Table 6-2). During the 1970-1985 period, benefits kept pace with inflation in only three states—California, whose AFDC benefits are automatically indexed, Maine, and Wisconsin.

TABLE 6-2.—CHANGES IN AFDC MAXIMUM BENEFITS FOR A 4-PERSON FAMILY, BY STATE, 1970-85

	Maximum benefit (dollars)		Changes (percent)	
	July 1970	January 1985	Current dollars	Constant dollars
Alabama	81	147	81	−33
Alaska	375	800	113	−21
Arizona	167	282	69	−38
Arkansas	100	191	91	−29
California	221	660	199	10
Colorado	235	420	79	−34
Connecticut	330	636	93	−29
Delaware	187	336	80	−34
District of Columbia	238	399	68	−38
Florida	134	284	112	−22
Georgia	133	245	84	−32
Hawaii	263	546	108	−23
Idaho	242	344	42	−48
Illinois	282	368	30	−52
Indiana	150	316	111	−22
Iowa	243	419	72	−36
Kansas	244	422	73	−36
Kentucky	187	246	32	−51
Louisiana	109	234	115	−21
Maine	168	465	177	2
Maryland	196	376	92	−29
Massachusetts	314	463	47	−46
Michigan	263	512	95	−28

TABLE 6–2.—CHANGES IN AFDC MAXIMUM BENEFITS FOR A 4-PERSON FAMILY, BY STATE, 1970–85—Continued

	Maximum benefit (dollars)		Changes (percent)	
	July 1970	January 1985	Current dollars	Constant dollars
Minnesota	299	611	104	–25
Mississippi	70	120	71	–37
Missouri	130	308	137	–13
Montana	228	425	86	–31
Nebraska	200	420	110	–22
Nevada	143	279	95	–28
New Hampshire	294	429	46	–46
New Jersey	347	443	28	–53
New Mexico	182	313	72	–37
New York	336	566	68	–38
North Carolina	158	244	54	–43
North Dakota	261	454	74	–36
Ohio	200	360	80	–34
Oklahoma	185	349	89	–30
Oregon	225	468	108	–23
Pennsylvania	313	444	42	–48
Rhode Island	263	547	108	–23
South Carolina	103	229	122	–18
South Dakota	300	371	24	–54
Tennessee	129	168	30	–52
Texas	179	201	12	–59
Utah	212	425	100	–26
Vermont	304	622	105	–24
Virginia	261	379	45	–46
Washington	303	561	85	–32
West Virginia	138	249	80	–33
Wisconsin	217	636	193	8
Wyoming	227	310	37	–50
Median State	221	379	81	–33

Source: Congressional Budget Office using data from Committee on Ways and Means, U.S. House of Representatives, "Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means," Committee Print 99-2 (February 22, 1985), Table 10, pp. 352–353.

Such a decline in benefits in constant dollars means that beneficiary families are able to buy fewer goods and services over time. Because most AFDC families receive food stamps, however, their food consumption is at least partially protected by the indexing of food stamps, as are their health expenditures by their receipt of Medicaid. Also, the constant dollar decline in AFDC benefits means that fewer families with other sources of income are eligible for

AFDC over time because their non-AFDC incomes are likely to have risen by more than the AFDC income cutoff points.

The decline in AFDC benefits in constant dollars was continuous during the 1970–1984 period (see Table 6-3). During the 1970–1975 and 1975–1980 periods, prices increased about twice as fast as the AFDC maximum benefit of the median state. When inflation was particularly high and real wages declined—as in 1973–1975 and 1979–1980—AFDC maximum benefits fell the most in real terms. After 1980, prices increased almost four times as fast as AFDC maximum benefits, as the states faced large budget deficits resulting in part from the severe recession.

TABLE 6-3.—INCREASES IN PRICES AND AFDC MAXIMUM BENEFITS, 1970–1984

[In percent]

	Consumer Price Index	AFDC maximum benefit of median state [1]
1970 to 1975	39	19
1975 to 1980	53	33
1980 to 1984	26	7

[1] Maximum benefit is for a family of four.

Source: Increases in Consumer Price Index computed by Congressional Budget Office from Bureau of Labor Statistics data; increases in AFDC benefits from data in Committee on Ways and Means, "Background Material and Data On Programs Within the Jurisdiction of the Committee on Ways and Means," Committee Print 99–2 (February 22, 1985), p. 351.

Interactions between the AFDC and Food Stamp programs may also have affected the growth in AFDC benefits. Legislation in the early 1970s expanded the Food Stamp program significantly, making it available nationwide and indexing its benefits. In fact, for a family who had not been receiving food stamps (or food commodities) in 1970, the sum of AFDC and food stamp benefits grew slightly in real terms through 1979.[2] This growth in food stamps no doubt led states to moderate the growth in AFDC benefits. Moreover, the Food Stamp program makes it more costly for states to raise AFDC benefits because of the resulting decline in food stamp benefits; for many families, a $1.00 rise in AFDC reduces their food stamp benefit by 30 cents. Without food stamps, a state with an AFDC financing share of 50 percent would have to spend $5.00 to increase a family's benefits by $10.00; with food stamps, the state would have to spend $7.14.[3]

By 1983 and 1984, the rise in prices had slowed markedly to around 3.5 percent to 4.5 percent a year. If inflation were to remain low, this alone would do much to reduce the constant dollar decline in AFDC benefits. Also, with the recession ended and states' fiscal situations improved, AFDC benefits have been growing more rapidly. At least over the near future, then, constant dollar AFDC benefits should not decline much and could even rise slightly.

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[2] See Richard A. Kasten and John E. Todd, "Transfer Recipients and the Poor During the 1970's," in Richard Zeckhauser and Derek Leebaert, eds., What Role for Government (Durham: Duke University Press, 1983).

[3] For the family to receive an added $10.00, the increased AFDC benefit would have to be high enough to cover the lost food stamps—$14.28 ($14.28–.3 ($14.28) = $10.00). The state's share of the $14.28 would be $7.14.

COSTS AND EFFECTS OF REDUCING STATES' FINANCING SHARES

To encourage further growth in AFDC benefit levels, H.R. 4920 would provide states with an incentive to raise benefits. This incentive would take the form of a 30 percent reduction in the state's financing share for all AFDC benefit increases after November 30, 1984.[4]

Under current law, both states and the federal government share in the financing of AFDC. States in the aggregate currently pay for 46 percent of benefit payments, and the federal government pays for 54 percent. Relative shares vary among states, however, depending on a state's per capita personal income. No state pays more than the legislated 50 percent maximum, and in 1986–1987 the minimum state share will be 21.58 percent (in Mississippi).

Under H.R. 4920, a state with a 50 percent financing share would have this share reduced by 15 percentage points (.50 × .30 = .15) to 35 percent for all benefit increases after November 1984. The federal government would pay for 65 percent of this state's benefit increases. A state with a 22 percent financing share would have its share reduced by only 7 percentage points (.22 × .30 = .07) to 15 percent; the federal government would pay for 85 percent of this state's benefit increases.

Implementation of this proposal would require calculation of new weighted average financing shares, where the weights would be the shares of pre-November 1984 benefits and post-November 1984 benefits to total benefits. For example, take a state with 50 percent financing share and a $350 AFDC benefit (to a three-person family with no other income) in July 1984. If the state were to increase its payment 3.5 percent a year, or $25, to $375 by July 1986, then its 1986 financing share would decline to 49 percent (.50 × 350/375 + .35 × 25/375 = .49). A similar calculation would be done for each family size, and an overall financing share would be calculated based on the composition of the caseload by family size.

The effectiveness of this provision in raising AFDC benefits would depend on the behavior of states. States who would have increased benefits under current law would find their financing share, and thus their expenditures, reduced. How much of their savings would they use to raise AFDC benefits and how much would they retain or use for other purposes? States who would not have increased benefits would now find it less costly to do so, although they would still have higher costs. How likely is it that the reduced cost of benefit increases would induce these states to grant increases? Although the above questions cannot be answered with any certainty, both common sense and the evidence indicate that at least some states would be induced by their lower financing shares to raise AFDC benefits.[5]

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[4] H.R. 4920 provides for a reduced state share for all benefit increases after November 30, 1983. It is expected, however, that the bill reintroduced this year will move the date forward a year, and CBO's estimates were based on a 1984 date.

Because the magnitude of such benefit increases is uncertain, CBO developed two scenarios to show a range of effects. In the first scenario, states would give no additional benefit increases. Those states who would increase their benefit levels anyway would have savings equal to about $0.1 billion in 1986 and $0.4 billion in 1990 (see Scenario I in Table 6–4). The federal government would have offsetting costs, total costs would be zero, and families would be no better off. The average federal matching rate would rise from 54 percent now to 56 percent by 1990.

In the second scenario, states would continue to spend exactly what they would spend under current law—in effect, funneling their savings into benefit increases. Total costs of the provision are estimated to be $0.2 billion in 1986 and $0.9 billion in 1990 (see Scenario II in Table 6–4). All of these costs would be borne by the federal government. Some AFDC families would have additional benefits; if all current AFDC families were to benefit, their monthly benefit increases would average $7 in 1986 and $29 in 1990. The average federal matching rate would be 57 percent by 1990.

TABLE 6–4.—EFFECTS OF REDUCING STATES' FINANCING SHARES FOR INCREASES IN AFDC BENEFITS, 1986 AND 1990

	Costs (billions of dollars)			Families affected [1]		
	Federal	State	Total	Number (millions)	Average monthly benefit increase (dollars)	Average federal matching rate (percent)
Scenario I: States Give No Additional Benefit Increases						
1986	0.1	−0.1	0	0	0	55
1990	.4	−.4	0	0	0	56
Scenario II: States Maintain Their Spending and Benefits Increase						
1986	0.2	0	0.2	3.7	7	55
1990	.9	0	.9	3.6	29	57

[1] These estimates assume that all current AFDC families would gain. In reality, some states would not raise benefits at all and fewer families would gain, but the benefit increases of those who did gain would be larger.

Source: Congressional Budget Office.

Neither of these two extremes is a likely outcome. At the midpoint of the range, federal costs would be $0.2 billion in 1986 and $0.7 billion in 1990, and state savings would be $0.1 billion and $0.2 billion, respectively. With this scenario, all affected states could keep one-half of their savings, funneling the other half into higher benefits; or, one-half of the affected states could funnel all of their savings into higher benefits while the other half kept all of their savings.

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[5] Matching rates have been found to be a significant factor affecting state AFDC benefit levels, along with other factors such as income levels. See Larry L. Orr, "Income Transfers as a Public Good: An Application to AFDC," American Economic Review (June 1976).

EFFECTS ON FOOD STAMPS AND MEDICAID

Any additional increase in a family's AFDC benefits would reduce its food stamp benefits. Under the first scenario in which states would give no additional benefit increases, there would be no effect on food stamps, as shown in Table 6-5 for the lower end of the range. Under the second scenario in which states would give benefit increases, food stamp costs would decline by $0.1 billion in 1986 and $0.3 billion in 1990 (see the upper end of the range).

TABLE 6-5.—TOTAL COSTS OF REDUCING STATES' FINANCING SHARES FOR INCREASES IN AFDC BENEFITS, BY PROGRAM

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
Federal costs:					
AFDC	0.1 to 0.3	0.2 to 0.6	0.3 to 0.8	0.3 to 1.0	0.4 to 1.3
Food stamps	0.0 to (0.1)	0.0 to (0.2)	0.0 to (0.2)	0.0 to (0.3)	0.0 to (0.3)
Subtotal	0.1 to 0.2	0.2 to 0.4	0.3 to 0.6	0.3 to 0.7	0.4 to 0.9
State costs:					
AFDC	(0.1) to 0.0	(0.2) to 0.0	(0.3) to 0.0	(0.3) to 0.0	(0.4) to 0.0
Food stamps					
Subtotal	(0.1) to 0.0	(0.2) to 0.0	(0.3) to 0.0	(0.3) to 0.0	(0.4) to 0.0
Total costs:					
AFDC	0.0 to 0.3	0.0 to 0.6	0.0 to 0.8	0.0 to 1.0	0.0 to 1.3
Food stamps	0.0 to (0.1)	0.0 to (0.2)	0.0 to (0.2)	0.0 to (0.3)	0.0 to (0.3)
Total	0.0 to 0.2	0.0 to 0.4	0.0 to 0.6	0.0 to 0.7	0.0 to 0.9

Note.—Numbers in parentheses are negative quantities.

Source: Congressional Budget Office.

No costs are shown for the Medicaid program. Under the first scenario, there would be no costs because benefit levels would be unchanged, and no families would be newly eligible for AFDC. Under the second scenario, there would be some additional Medicaid costs because the higher AFDC benefit levels would make some families newly eligible for AFDC and, hence, for Medicaid. But the number of newly eligible families cannot be estimated with any reliability, and their AFDC and Medicaid costs would be small in any event. Estimated costs of this provision, even with these additional costs, would still be expected to fall within the range shown.

CHAPTER VII. ENACTING THE PACKAGE OF PROPOSALS

The effects on both government costs and families from enacting simultaneously all of the proposals discussed in previous chapters would be considerably more than the sum of each proposal's effects. Because of interactions among the proposals, more families would become eligible for Aid to Families with Dependent Children, and benefits of many families would be higher.

This package of proposals—mandating a minimum benefit, extending benefits to two-parent families, increasing deductions from income, liberalizing asset restrictions, and reducing states' financing shares for increases in AFDC benefits—would represent a major expansion of the AFDC program. AFDC costs would be one-third higher in 1986 and almost three-fifths higher by 1990. The number of families receiving AFDC would be almost 40 percent higher.

The estimated cost of the package of proposals would be $5.3 billion in 1986 (see Table 7-1). The federal government share would be $3.3 billion and the share of states and localities, $2.0 billion. By 1990, the cost would rise to $11.3 billion. As a result, more than 3.8 million low-income families would be better off.

TABLE 7-1.—TOTAL COSTS OF ENACTING THE PACKAGE OF PROPOSALS

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
Federal	3.3	5.4	6.0	6.4	6.9
State	2.0	3.5	3.9	4.2	4.4
Total	5.3	9.0	9.9	10.6	11.3

Note.—Costs include those in the AFDC, Medicaid, Food Stamp, and General Assistance programs. Costs have been adjusted for added administrative costs, added benefit costs because of reduced work effort, and reduced benefit costs in 1986 and 1987 because newly eligible families would go onto AFDC only over time.

Source: Congressional Budget Office.

The above estimates include effects in the AFDC, Medicaid, Food Stamp, and state General Assistance programs, as developed in the earlier chapters. They also include some adjustments to costs not shown earlier.

Costs and Effects of the Package of Proposals

The additional costs of each proposal as it is added to the package would be significantly more than the costs of that proposal if it were enacted alone. The number of families made better off would also be higher. This section analyzes these additional costs and magnified effects. First, costs in AFDC alone and the effects of the increased AFDC benefits, are discussed. Then effects on Medicaid, Food Stamps, and General Assistance are shown. Finally, the adjustments to costs noted above are considered.

TABLE 7-2.—AFDC COSTS FROM ENACTING THE PACKAGE OF PROPOSALS

[By fiscal year, in billions of dollars]

Combinations of proposals	1986	1987	1988	1989	1990
Enact 1 and 2:					
Federal	3.4	3.6	3.9	4.1	4.3
State	1.3	1.4	1.6	1.7	1.9
Total	4.7	5.1	5.4	5.8	6.2
Enact 1, 2, and 3:					
Federal	4.2	4.5	4.7	5.0	5.3
State	1.8	1.9	2.1	2.3	2.4
Total	6.0	6.4	6.8	7.3	7.7
Enact 1, 2, 3, and 4: [1]					
Federal	4.4	4.7	5.0	5.3	5.6
State	2.0	2.1	2.3	2.5	2.7
Total	6.4	6.8	7.3	7.8	8.2
Enact, 1, 2, 3, 4, and 5: [2]					
Federal	4.8	5.3	5.7	6.1	6.6
State	1.9	2.0	2.1	2.3	2.4
Total	6.7	7.2	7.8	8.4	9.0

[1] Estimates use the midpoints of the ranges presented in Chapter V for liberalization of asset restrictions.

[2] Estimates use the midpoints of the ranges presented in Chapters V and VI for liberalization of asset restrictions and for reducing states' financing shares for increases in AFDC benefits.

Note.—Adjustments to costs for administration, reduced work effort, and the gradual phase-in of new families are not included. Nor are effects on Medicaid, Food Stamps, and General Assistance.

Key to H.R. 4920 proposals:

1. Mandate a minimum benefit.
2. Extend benefits to two-parent families.
3. Increase deductions from income.
4. Liberalize asset restrictions.
5. Reduce states' financing shares for increases in AFDC benefits.

Source: Congressional Budget Office.

AFDC COSTS AND EFFECTS ON FAMILIES

The costs in AFDC alone of combinations of proposals are shown in Table 7-2; Table 7-3 shows the number of families affected by these same combinations. Mandating a minimum benefit in AFDC at the 65 percent of poverty level discussed in Chapter II, together with extending benefits to all two-parent families with low incomes, would cost $4.7 billion in 1986 and $6.2 billion in 1990. Because the minimum benefit would raise the AFDC income cutoff point, about 80,000 more two-parent families would become eligible for AFDC—that is, 80,000 more than were estimated to be eligible by simply adding the effects of the two proposals if each were enacted alone. Also, some other two-parent families living in states affected by the minimum benefit would receive higher AFDC benefits. These interactions would add an estimated $0.3 billion, or 5 percent to 6 percent, to the combined cost of the two proposals when estimated separately.[1]

TABLE 7-3.—NUMBER OF FAMILIES AFFECTED BY THE PACKAGE OF PROPOSALS, 1986

[In millions]

Combinations of proposals	Current families	New families	Total families
Enact 1 and 2	2.2	0.7	2.9
Enact 1, 2, and 3	2.3	1.4	3.7
Enact 1, 2, 3, and 4 [1]	2.3	1.5	3.8
Enact 1, 2, 3, 4, and 5 [2]	2.3+	1.5	3.8+

[1] Estimates use the midpoints of the ranges presented in Chapter V for liberalization of asset restrictions.

[2] Because of the uncertainty with the effects of the proposal to reduce states' financing shares, it is not possible to know how many additional families currently receiving AFDC would be made better off.

Key to H.R. 4920 proposals:
1. Mandate a minimum benefit.
2. Extend benefits to two-parent families.
3. Increase deductions from income.
4. Liberalize asset restrictions.
5. Reduce states' financing shares for increases in AFDC benefits.

Source: Congressional Budget Office.

Increasing deductions from income, mandating a minimum benefit, and extending benefits to two-parent families would cost $6.0 billion in 1986 and $7.7 billion in 1990. Costs of the three proposals combined would rise substantially because of interactions—by $1.1 billion, or 23 percent, in 1986. A rise in the number of newly eligible and participating families is the major reason for the higher costs, although families who would begin to participate in AFDC because of the minimum benefit and two-parent family proposals would also receive higher benefits because of the increased deductions. New families would total 1.4 million, as shown in Table 7-3—an increase of 0.6 million, or about 65 percent, because of interactions. Some 0.3 million two-parent families would be added because the increased income deductions would raise the income cutoff point for families newly eligible with the extension of benefits to all low-income, two-parent families. Another 0.1 million two-parent families would be added because of the interaction between the minimum benefit and two-parent proposals noted earlier. The remaining 0.2 million would result from a further rise in the income cutoff point because of interactions between the minimum benefit and income deduction proposals, and probably also from larger numbers of potentially eligible families as the income cutoff point reached portions of the income distribution where there are more families.

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[1] The additional costs resulting from interactions between the proposals are the costs of the combination of proposals over and above the sum of the costs of each proposal in the combination if they were enacted separately.

Liberalizing asset restrictions in conjunction with the three preceding proposals would cost $6.4 billion in 1986 and $8.2 billion in 1990. The interactions would add another estimated 45,000 new families to the AFDC program and $0.1 billion to costs. These families would be those whose incomes made them newly eligible for AFDC as the income cutoff points were increased because of interactions, but whose assets made them ineligible before the asset restrictions were liberalized.

The full package of five proposals would cost an estimated $6.7 billion in AFDC in 1986 and $9.0 billion in 1990. However, the estimated cost of the last proposal, which would reduce states' financing shares for increases in AFDC benefits, is very uncertain. As discussed in Chapter VI, there is no way to know how states would alter AFDC benefits in reaction to the incentives provided by their reduced financing shares. Interactions with the other proposals make this uncertainty even greater. Because states would be faced with higher expenditures, they would be less likely to increase AFDC benefit levels voluntarily, thus reducing the costs of the financing share incentive.[2] On the other hand, increases in benefits resulting from the other proposals would qualify for the reduced state financing share, raising federal costs of the proposal by about $0.1 billion in 1987 and $0.2 billion in 1990. Most of these costs are for interactions with the minimum benefit proposal. Initial increases in benefit levels necessitated by the minimum benefit proposal would not qualify for the reduced state financing shares, but later increases—in 1987 and beyond—would. To illustrate costs for the package of proposals, CBO has used the midpoint of the ranges of estimated costs shown in Chapter VI for the proposal that would reduce states' financing shares.

Of the 3.8 million families made better off by the total package of proposals, 1.5 million would be new families (see Table 7-3). Approximately 1.0 million of the new families, or 63 percent, would be two-parent families.

EFFECTS ON POVERTY

More than 2.9 million poor families (and 1.8 million nonpoor families) would be better off as a result of enacting the package of proposals (see Table 7-4). The poverty gap would be $4.7 billion less after the package was implemented, a decline of almost one-third. Three-quarters of the cost of the proposals would go to closing the poverty gap. About 300,000 families would move out of poverty, causing a 10.4 percent decline in the poverty rate for families affected by the package of proposals. About three-fifths of the families that would be affected would be poor.

Among all families with children, the poverty rate would decline by 5.3 percent. Their poverty gap would drop by 19.0 percent.

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[2] States affected by the minimum benefit proposal, however, would not be able to avoid raising benefits.

TABLE 7-4.—ESTIMATED EFFECTS ON POVERTY OF ENACTING THE PACKAGE OF PROPOSALS, 1986

	Poverty status of families affected by the proposal [1]			Poverty status of all families with children [2]		
	Poor	Nonpoor	Total	Poor	Nonpoor	Total
Before Enacting the Package						
Number of families (millions)	2.9	1.8	4.7	5.7	26.9	32.6
Percent	62.2	37.8	100.0	17.5	82.5	100.0
Poverty gap (billions of dollars)	14.6		14.6	24.8		24.8
After Enacting the Package						
Number of families (millions)	2.6	2.1	4.7	5.4	27.2	32.6
Percent	55.8	44.2	100.0	16.6	83.4	100.0
Poverty gap (billions of dollars)	9.9		9.9	20.1		20.1
Change						
Number of families (millions)	−0.3	0.3		−0.3	0.3	
Percent	−10.4	17.2		−5.3	1.1	
Poverty gap (billions of dollars)	−4.7		−4.7	−4.7		−4.7
Percent	−32.3		−32.3	−19.0		−19.0

[1] Numbers of families are those on AFDC at any time during the year. Because some families affected by the proposal are on AFDC only part of the year, the number of families shown here (4.7 million) is greater than the 3.8 million on an average monthly basis shown in Table 7-3.

[2] For all families with children, poverty counts and rates before implementing the package are published estimates for 1982. See Department of Commerce, Bureau of the Census, "Characteristics of the Population Below the Poverty Level: 1982" (Current Population Reports, Consumer Income, Series P-60, No. 144, March 1984).

Note.—Effects of the proposal to reduce states' financing shares are not included. Also, the estimates do not include the effects of reduced work effort or of a gradual phase-in of new families.

Source: Congressional Budget Office.

EFFECTS ON REGIONS

The effects of enacting the package of proposals would vary sharply among the regions. The South would account for $3.1 billion, or 49 percent, of the package's AFDC costs in 1986 (see Table 7-5). AFDC payments in the South would increase by one and one-half times. The region's disproportionate share reflects mainly the effects of the minimum benefit proposal, which would require every southern state to increase its AFDC benefits.

TABLE 7-5.—EFFECTS OF ENACTING THE PACKAGE OF PROPOSALS, BY REGION IN 1986

Region[1]	Current families				New families				Total families			
	AFDC costs		Families affected		AFDC costs		Families affected		AFDC costs		Families affected	
	Amount (billions of dollars)	Percent of total	Number (millions)	Percent of total	Amount (billions of dollars)	Percent of total	Numbers (millions)	Percent of total	Amount (billions of dollars)	Percent of total	Number (millions)	Percent of total
North Central	0.8	26	0.9	39	0.6	19	0.3	20	1.4	22	1.2	31
Northeast	0.2	6	0.4	16	0.6	18	0.2	15	0.8	12	0.6	16
South	1.9	63	0.9	39	1.2	35	0.6	42	3.1	49	1.5	40
West	0.2	5	0.1	6	0.9	28	0.4	23	1.1	17	0.5	13
Total	3.1	100	2.3	100	3.4	100	1.5	100	6.4	100	3.8	100

[1] North Central—Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, and Wisconsin;
Northeast—Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, and Vermont;
South—Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia;
West—Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

Note.—Estimates are approximate. They exclude effects of the proposal to reduce state's financing shares for increases in AFDC benefits.

Source: Congressional Budget Office.

The North Central, Northeast, and West regions would account for costs of $1.4 billion (22 percent), $0.8 billion (12 percent), and $1.1 billion (17 percent), respectively. Their AFDC payments would increase less in percentage terms: by 30 percent in the North Central region, 19 percent in the Northeast, and 27 percent in the West.

Affected families would be distributed somewhat more evenly among the regions than would costs. But the South would still have 40 percent of affected families.

Costs for current AFDC families would be distributed among the regions much more unevenly than costs for new families. While 63 percent of the costs for current families would be in the South, only 35 percent of the costs for new families would occur there.

EFFECTS ON FOOD STAMPS, MEDICAID, AND GENERAL ASSISTANCE

The large increase in AFDC benefits would occasion a large decrease in food stamp benefits. Costs in the Food Stamp program would decline by an estimated $1.8 billion in 1986 and $2.4 billion in 1990 (see Table 7-6).

TABLE 7-6.—TOTAL COSTS OF ENACTING THE PACKAGE OF PROPOSALS, BY PROGRAM

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
Federal costs:					
AFDC	4.8	5.3	5.7	6.1	6.6
Food stamps	−1.8	−1.9	−2.1	−2.2	−2.4
Medicaid	1.3	1.4	1.5	1.6	1.7
General assistance					
Subtotal	4.4	4.8	5.1	5.5	5.5
State costs:					
AFDC	1.9	2.0	2.1	2.3	2.4
Food stamps					
Medicaid	1.0	1.1	1.1	1.2	1.3
General assistance	−0.1	−0.1	−0.1	−0.1	−0.1
Subtotal	2.8	2.9	3.2	3.4	3.6
Total costs:					
AFDC	6.7	7.2	7.8	8.4	9.0
Food stamps	−1.8	−1.9	−2.1	−2.2	−2.4
Medicaid	2.3	2.5	2.6	2.8	3.0
General Assistance	−0.1	−0.1	−0.1	−0.1	−0.1
Total	7.2	7.7	8.3	8.9	9.5

Note.—Adjustments to costs for administration, reduced work effort, and the gradual phase-in of new families are not included.

Source: Congressional Budget Office.

Medicaid costs would rise sharply, more than offsetting the food stamp reductions, because so many families would become eligible for AFDC. All of the adults and many of the children in 1.5 million families are estimated to become newly eligible for Medicaid, raising costs by $2.3 billion in 1986 and $3.0 billion in 1990.

General Assistance costs to states would decline by an estimated $0.1 billion in both 1986 and 1990. These savings are the same as those shown for the proposal extending benefits to two-parent families. The income cutoff points in GA tend to be lower than in AFDC, and there are more restrictions in general. CBO therefore has assumed that the additional two-parent families who would be brought onto AFDC because of interactions among the proposals would not qualify for GA.

COST ADJUSTMENTS

This section discusses some adjustments to costs that were made to arrive at an estimated total cost for the package of proposals. These adjustments included: (1) higher costs of administration in the AFDC and Medicaid programs because of the rise in the number of participating families; (2) higher benefit costs in AFDC because of reduced work effort by affected families; and (3) lower benefit costs in AFDC in the early years of implementation because newly eligible families would go onto AFDC only over time. Each is discussed in turn.

Administrative costs.—The substantial increase in the number of new families receiving AFDC and Medicaid would cause administrative costs in both programs to rise. Establishing initial eligibility, recertifying eligibility periodically, determining work requirements, mailing checks, processing medical claims, and otherwise servicing cases costs state and local governments considerable sums. The federal government shares in these costs, financing 50 percent in AFDC and approximately 60 percent in Medicaid.

In AFDC, total administrative costs are estimated to rise by $0.3 billion in 1986 and $0.9 billion in 1990 (see Table 7-7). This increase in costs from 1986 to 1990 reflects a gradual phase-in of new families, as discussed below.

An annual cost of approximately $485 per family in 1986 was assumed for administration, based on the current average administrative cost per family in AFDC. The marginal costs of administration could well be less than these average costs. Because these new families would usually have incomes and would often have jobs, however, their turnover would be greater than for current AFDC families, causing administrative costs to be higher. Other than for the new families, administrative costs are estimated to remain unchanged. Some of the proposals—such as the minimum benefit, which would require many states to change benefit levels every year—would raise administrative costs for current AFDC families. Other proposals—such as making asset restrictions consistent with those for the Food Stamp program—would lower such costs.

TABLE 7-7.—ADMINISTRATIVE COSTS FOR THE PACKAGE OF PROPOSALS

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
Federal costs:					
AFDC	0.2	0.4	0.4	0.4	0.4
Medicaid	([1])	0.1	0.1	0.1	0.1
Subtotal	0.2	0.4	0.5	0.5	0.5
State costs:					
AFDC	0.2	0.4	0.4	0.4	0.4
Medicaid	([1])	([1])	([1])	([1])	([1])
Subtotal	0.2	0.4	0.4	0.5	0.5
Total costs:					
AFDC	0.3	0.7	0.8	0.8	0.9
Medicaid	([1])	0.1	0.1	0.1	0.1
Total	0.4	0.8	0.9	0.9	1.0

[1] Less than $50 million.

Source: Congressional Budget Office.

In Medicaid, total administrative costs are estimated to rise by $0.1 billion or less each year. Administrative costs were assumed to equal about 4 percent of the added Medicaid costs for the new families.

Reduced work effort.—Some of the families new to AFDC would probably reduce their work effort—that is, the number of hours they would work for pay. The receipt of AFDC might induce earners to reduce their hours of work for two reasons. First, their incomes would be higher as a result of the AFDC benefits. When an earner's income increases, he or she might choose to increase leisure hours, resulting in reduced work hours (the "income effect"). Second, the high benefit reduction rates in AFDC would sharply reduce the income an earner could keep from an additional hour of work (the "substitution effect"). As discussed in Chapter IV, under H.R. 4920 an earner on AFDC would retain only 40 cents of an added $1 of earnings.

The CBO estimates show a reduction in hours of work of 6.5 percent for husbands, 17.4 percent for wives, and 8.3 percent for single female heads. These reduced hours would translate into a reduction in aggregate earnings of the new AFDC families of about $1.0 billion each year after 1986. As earnings of the new AFDC families declined, their AFDC and food stamp benefits would rise.

The added cost in AFDC is estimated to be $0.2 billion in 1986 and $0.7 billion in 1990 (see Table 7-8). For every dollar of earnings loss, AFDC benefits would rise by 60 cents ($1 less the work-related expense deduction of 20 percent and the one-quarter deduction). In Food Stamps, benefits would increase to offset the loss in earnings but decrease to offset the rise in AFDC benefits; on balance, they would increase by $0.1 billion or less each year. The rise in costs from 1986 to 1990 reflects a gradual phase-in of new families, as discussed in the next section.

Reduced work effort is assumed only for the newly eligible and participating families. The direction of a change in work effort among most of the families currently receiving AFDC is unknown; their higher AFDC benefits would induce reduced hours of work, but the lower benefit reduction rates would induce increased hours of work. Also, the CBO estimates do not include any increase in the number of new families coming onto AFDC, because they might have reduced their hours of work in order to qualify for the program.

TABLE 7-8.—INCREASES IN AFDC AND FOOD STAMP COSTS BECAUSE OF REDUCED WORK EFFORT

[By fiscal year, in billions of dollars]

	1986	1987	1988	1989	1990
Federal costs:					
AFDC	0.1	0.3	0.4	0.4	0.4
Food stamps	([1])	0.1	0.1	0.1	0.1
Subtotal	0.2	0.4	0.4	0.4	0.5
State costs:					
AFDC	0.1	0.2	0.3	0.3	0.3
Food stamps					
Subtotal	0.1	0.3	0.3	0.3	0.3
Total costs:					
AFDC	0.2	0.6	0.6	0.7	0.7
Food stamps	([1])	0.1	0.1	0.1	0.1
Total	0.3	0.6	0.7	0.7	0.8

[1] Less than $50 million.

Source: Congressional Budget Office.

The CBO estimates were based on the results of an experiment that tested the effects on work effort of several "negative income tax" plans that provided government benefits to low-income families, both two-parent and single-parent families.[3] Estimates of income and substitution effects from the experiment were the basis of CBO's estimates. As shown in Table 7-9, a $1,000 increase in government benefits would reduce a husband's work effort by 95.15 hours a year; a $1 per hour reduction in his net wage rate because of a program's benefit reduction rate would reduce his work effort by 71.33 hours a year. Wives and single female heads would reduce their hours by more than husbands would.

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[3] See SRI International, "Final Report of the Seattle-Denver Income Maintenance Experiment, Volume I, Design and Results" (Menlo Park, California: SRI, May 1983).

TABLE 7-9.—ESTIMATES OF INCOME AND SUBSTITUTION EFFECTS USED TO MEASURE REDUCED WORK EFFORT

	Cause of change in annual hours of work	
	Income effect (per $1,000 of increased benefits)	Substitution effect (per $1/hour decrease in the net wage rate)
Husbands	−95.15	−71.33
Wives	−196.75	−151.76
Single female heads	−147.12	−176.37

Source: SRI International, "Final Report of the Seattle-Denver Income Maintenance Experiment, Volume I, Design and Results" (Menlo Park, California: SRI, May 1983), p. 173.

These estimated effects were then combined with the effects of H.R. 4920 on husbands, wives, and single female heads as estimated in TRIM2, one of the models used in these estimates (see Chapter VIII). The CBO estimates were based on two assumptions. First, any family receiving AFDC for less than 12 months each year would have no substitution effect; that is, CBO assumed that these families would be on AFDC when they were not working, in which case there would be no substitution effect. There could still be an income effect if they worked fewer months because of the income support. Second, two-parent families would have a substitution effect equal to one-half of that shown in Table 7-9 because CBO's estimates assumed that states would provide benefits for only 6 of every 12 months.

These estimates of reduced work effort are uncertain for many reasons. Estimates from the experiment itself have limitations, probably the most serious of which was its temporary nature. Seattle and Denver were the sites for the experiment, yet their results were used for the United States as a whole in CBO's estimates. In addition, the experimental results were for 1971, and much has changed since then, including levels of earnings. Perhaps most important, the experiment's negative income tax plans were quite different from the proposals considered here; they were based on a family's annual rather than monthly income, and they provided benefits to two-parent families for an entire year. The adjustments noted above that reduced the substitution effects attempted to account for these differences, but they did so only in a crude fashion.

Phase-in of newly eligible families.—The 1.5 million newly eligible and participating families would not actually receive AFDC benefits immediately. Rather, they would flow onto AFDC gradually over some period of time as they learned of their eligibility.

In these cost estimates, CBO assumed that new single-parent families would flow onto AFDC throughout fiscal year 1986. Approximately three-quarters of new two-parent families—those in the Food Stamp program—were assumed to flow onto AFDC throughout fiscal year 1986; the remaining one-quarter, over the 1986-1987 period. By 1988, then, estimated costs would include costs for all the newly eligible and participating families. Costs in

1986 would be reduced by $2.5 billion and in 1987 by $0.2 billion because of the gradual phase-in of newly eligible families compared with immediate receipt of benefits for all those who were newly eligible (see Table 7-10).

TABLE 7-10.—CHANGES IN BENEFIT COSTS FOR THE GRADUAL PHASE-IN OF NEWLY ELIGIBLE FAMILIES, FISCAL YEARS 1986 AND 1987

[In billions of dollars]

	1986	1987
Federal cost:		
AFDC	−1.2	−0.1
Medicaid	−0.7	−0.1
Food stamps	0.5	([1])
General Assistance		
Subtotal	−1.4	−0.1
State cost:		
AFDC	−0.6	([1])
Medicaid	−0.5	([1])
Food stamps		
General Assistance	([1])	([1])
Subtotal	−1.1	−0.1
Total costs:		
AFDC	−1.8	−0.1
Medicaid	−1.3	−0.1
Food stamps	0.5	([1])
General Assistance	([1])	([1])
Total	−2.5	−0.2

[1] Less than $50 million.

Source: Congressional Budget Office.

Direct evidence on the length of any phase-in of newly eligible families in AFDC does not exist. After the Supplemental Security Income program was started in 1974, however, it took about two years for the number of beneficiaries to reach stable levels. The AFDC eligible population might come onto the program more rapidly for several reasons. First, turnover in the program is quite high. About 2 million new applications are approved in AFDC each year; since the program has been fairly stable, this implies that about one-half of families leave the program each year. Many would leave because of increased incomes and perhaps also increased assets, and some of these families would simply remain on the program after the proposed changes. Also, about 250,000 families apply for AFDC each year but are denied benefits because their incomes or assets exceed program limits; many of these families would be eligible after the proposed modifications. Second, families receiving food stamps would be likely to learn of the new AFDC benefits fairly quickly. In fact, if outreach to these families informed them of the new benefits, they could come onto AFDC more quickly than CBO has assumed.

CHAPTER VIII. ANALYTICAL APPROACHES AND LIMITATIONS

The estimates presented in the preceding chapters are based on a variety of analytical approaches, using a number of different data bases. In this chapter, these approaches are described in some detail. Assumptions are analyzed, and the areas of greatest uncertainty are highlighted.

This chapter includes a separate section on approaches and uncertainties for each proposal. Then a final section describes methodologies for the entire package of proposals.

MANDATING A MINIMUM BENEFIT LEVEL

This section discusses the methodologies used by CBO in its analysis of the effects of a minimum benefit level on both current and new AFDC families and on poverty. The techniques used for analyzing the effects on current AFDC families differ from those used for new families. Also, there is much more uncertainty over estimates for the new families.

CURRENT FAMILIES

To estimate the number of current AFDC families who would be affected, and the associated government costs, CBO constructed a data base of maximum AFDC benefit levels by state and by family size. Estimates of the bill's effects could then be calculated by comparing current law AFDC benefit levels with minimum benefit levels required by the legislation.

Calculations of the effects of the minimum benefit were completed for four separate years: 1986, 1985, 1984, and 1982. The 1986 calculations were used for the 1986 estimates shown in Chapter II. The 1984 calculations were based on the most recent actual benefit levels, thereby providing a firm estimate of the bill's effects. The changes between 1984, 1985, and 1986 were used to estimate changed costs in the out-years. The 1982 calculations were used to check the estimates of the model used in determining the number of new families, based on 1982 data.

For 1985 and 1986, current law AFDC benefit levels by state had to be projected from actual July 1984 levels. Projections were made by extrapolating recent changes in such benefit levels. Depending on the state, average changes over either the 1981-1984 period or the 1983-1984 period were used in the extrapolation. The 1981-1984 period was used for states whose benefit changes fluctuated considerably from year to year; the 1983-1984 period was used for states whose increases were more frequent and predictable, because CBO's projected CPI increases are more similar to those in the 1983-1984 period than to those in the entire 1981-1984 period. While states' increases in AFDC benefit levels have not been closely related to changes in the CPI, they seem to rise somewhat along with inflation.

In estimating effects for the years beyond 1986, costs were increased by $0.3 billion a year, based on the estimated increases in costs from 1984 to 1985 and from 1985 to 1986. CBO's projections of increases in the poverty guidelines and in state benefit levels in the out-years are very similar to the 1985 and 1986 projected increases.

The estimates for current AFDC families, which account for 90 percent of the proposal's costs, are quite reliable. About 85 percent of the estimated 1986 costs had already been reached by 1984 using actual 1984 state benefit levels and poverty guidelines.

The major uncertainties for 1986 and beyond result from having to forecast poverty guidelines—and, hence, prices—and state AFDC benefits. The poverty guidelines were projected to rise 4.8 percent a year along with the CPI (based on CBO's economic assumptions of August 1984). During the last decade, however, the CPI has risen as little as 3.2 percent and as much as 13.5 percent a year. Average state AFDC benefit levels have also been volatile, rising from 1 percent to 8 percent a year during the past decade, and increases were even more volatile for individual states. Another uncertainty is whether other changes will be enacted in the AFDC or Food Stamp programs that would significantly alter these estimates.

NEW FAMILIES

Estimating the number of newly eligible and participating families, and the resulting AFDC costs, is much more uncertain than estimating effects for current families. To estimate the number of new families, eligibility for AFDC has to be determined using reported incomes and demographic characteristics of families compared with program eligibility rules. The surveys used in the estimation often do not include the full range of necessary information on families. Moreover, the number of newly eligible families who would choose to participate in AFDC is unknown.

Because of these uncertainties, estimates were developed using two alternative data bases: the Transfer Income Model (TRIM2), based on the Bureau of the Census Current Population Survey (CPS) for income year 1982, and the Department of Agriculture's August 1982 survey of the characteristics of households receiving food stamps.[1] Estimates were then adjusted to 1986 levels as discussed below.

Newly eligible families are those who were ineligible for AFDC before mandating a minimum benefit level. TRIM2 identifies about 235,000 such families, and the food stamp survey, about 115,000. This is a big discrepancy, but there are reasons why the TRIM2 estimate is higher. TRIM2 identifies all newly eligible families, but many of these families would never participate in AFDC: their benefits would be too low to make it worthwhile, they would not accept welfare under any circumstances, or they might never know they were eligible. These families also are unlikely to be receiving food stamps, and thus would not show up in the estimates of newly eligible families from the food stamp survey. Moreover, income is under reported on the CPS, leading to overestimates of newly eligible families on TRIM2, while income under reporting should not be a problem on the food stamp survey which is based on program (administrative) records.

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[1] See Appendix K for a brief description of these data bases or models and their limitations.

The number of families and the costs shown in Chapter II are based on an estimated 135,000 newly eligible families participating in AFDC, somewhat higher than the estimate from the food stamp survey. This implies a participation rate of 57 percent among eligible families identified by TRIM2 (135,000/235,000 = .57), a somewhat lower participation rate than might otherwise have been assumed.[2] AFDC benefits for these families were estimated to average $133 a month in 1986, for a 1986 cost of about $215 million.

The food stamp survey identifies about 200,000 previously eligible but nonparticipating families who might now participate in AFDC.[3] An alternative estimate was derived by assuming that about 90 percent of eligible families participate in AFDC; given the number of families currently receiving AFDC—almost 3.7 million—this left about 400,000 eligible but nonparticipating families, about 60 percent of whom would be affected by the minimum benefit proposal (400,000 x .60 = 240,000). But not all of these families would now begin to participate. Of all the reasons for not participating in AFDC, the only one altered by the minimum benefit proposal would be the size of the AFDC benefit. Some families whose benefits were too small to make participation worthwhile might be induced to participate because of the higher benefits. In these estimates, CBO assumed that about 25 percent—or 55,000 families—would begin to participate.[4] Their average monthly benefits in 1986 would be $355, for a cost of about $235 million a year.

These estimates of new families were based on 1982 data. To adjust the estimates to 1986 and beyond, CBO assumed that the number of new families would remain constant: the increases that would result from rising minimum benefit levels over future years would be offset by the increases in earnings and other components of income of the affected families. Their average benefits, however, would increase over time. If the non-AFDC incomes of these families were to increase at the same percentage rates as the poverty guidelines (which rise with the CPI), then their average benefits would rise at this same rate. Under CBO's economic assumptions, their average benefits would rise at a 4.8 percent annual rate.

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[2] While participation rates in AFDC have been estimated to be about 90 percent among single-parent families, they would be lower for these families whose AFDC benefits would be small and who would be concentrated in the South where participation rates are estimated to be lower than in other regions. See Richard Michel and Patricia Willis, "Participation Rates in the Aid to Families With Dependent Children Program, Parts I, II, and III" (Working Papers, Urban Institute, Washington, D.C., August and September 1980).

[3] TRIM2's estimates of this group are too high because estimated AFDC participation rates in the model for 1982 are too low to use for 1986 and beyond—70 percent compared with a normal 90 percent. The 1982 participation rates are reduced by the rise in estimated eligible families with the deep recession.

[4] Using TRIM2, which has a logit model of participation that takes account of the size of potential AFDC benefits, 29 percent of eligible nonparticipating families were estimated to begin to participate as a result of the higher AFDC benefits under the minimum benefit proposal.

POVERTY EFFECTS

The effects on poverty of mandating a minimum benefit level were developed from TRIM2 simulations of a minimum benefit proposal in 1982 and its effect on family incomes. Incomes before and after the proposal were then compared with 1982 Census poverty thresholds. The TRIM2 estimates of the percentage of families affected by the proposal that were poor, the percentage of the proposal's cost going to reduce the poverty gap, and the number of families that moved out of poverty for a given change in the poverty gap were then applied to CBO's 1986 estimates of the costs and effects of a mandatory minimum benefit.

An example might clarify these procedures. Simulations for 1982 using TRIM2 found 70.8 percent of the families affected by the minimum benefit proposal to be poor. Thus, CBO assumed that 70.8 percent of the families affected by the proposal in 1986 would also be poor. Also, in the TRIM2 simulations, 79 percent of the cost of the proposal went to closing the poverty gap, and this percentage was also used by CBO for 1986. Finally, TRIM2 estimated that 0.1 million families were moved out of poverty. To calculate families moved out of poverty in 1986, CBO took the TRIM2 ratio of the number of families moved out of poverty to the change in the poverty gap. This ratio was then applied to CBO's estimated cost of the proposal going to close the poverty gap in 1986, deflated to 1982 dollars. Using the 1986 figure without deflation would imply that more families would move out of poverty in 1986 than in 1982 simply because of a rise in prices.

Another adjustment was made to make the 1986 estimated poverty effects of the proposal consistent with official measures of poverty status. Poverty measures are based on annual income including AFDC received at any time during the year, while CBO's estimates of the number of families affected by the minimum benefit are average monthly figures. To correct for this—and also for the fact that two (or more) AFDC families may be one family for purposes of poverty measurement—estimates were developed from TRIM2 of the ratio of affected families on AFDC at any time during the year to the average monthly number of AFDC families affected by the proposal. This ratio was used to inflate the average monthly CBO estimates for 1986 to estimates of families affected at any time during the year for calculation of poverty effects.

These same procedures were used to estimate the poverty effects of the other AFDC proposals.

The major uncertainty concerning the poverty estimates results from the assumption that the poverty effects of the minimum benefit proposal in 1982 are transferable to the proposal's 1986 poverty effects. Poverty rates may in fact be quite different in 1986 than they were in 1982. CBO's method of calculating poverty effects assumed that the distribution of families around the poverty threshold would be the same in 1986 as in 1982. Both demographic and economic changes, however, can alter this distribution. If a smaller percentage of families was below the poverty threshold in 1986 than in 1982, the poverty effects of the proposal would probably be overestimated. Fewer families would move out of poverty when a proposal was enacted, the poverty gap would be smaller, and a smaller percentage of the cost of the proposal would go to reducing the poverty gap. On the other hand, the poverty effects would probably be underestimated if the population in 1986 were distributed such that relatively more families were below the poverty threshold than in 1982.

In summary, the estimates of effects of the AFDC minimum benefit proposal are probably quite reliable overall, at least in the near term. While great uncertainty exists over the number of new families that would begin to participate in AFDC, their effects on the proposal's costs are not large.

EXTENDING BENEFITS TO TWO-PARENT FAMILIES

Extending benefits to two-parent families affects only new families; benefits of current families remain unchanged. Thus, the estimates for this proposal were developed entirely from TRIM2 simulations.

The TRIM2 simulation found that extending benefits to two-parent families would make 740,000 families newly eligible for AFDC in 1984. Because most of the two-parent families have an adult(s) who is working or unemployed, the estimated effects should be sensitive to the level of unemployment. The current unemployment rate is about 7 percent, while that used in the TRIM2 simulation was 7.8 percent. The 740,000 figure for families eligible in 1984 was adjusted downward to 665,000 to allow for the reduced unemployment rate. This adjustment was estimated to be equal to the percentage decline in the unemployment rate from 7.8 percent to 7.0 percent based on a comparison of TRIM2 simulations for 1982 and 1984. Between 1982 and 1984, the simulated eligible population declined by 22 percent, compared with a 20 percent decline in the unemployment rate from 9.7 percent to 7.8 percent (an elasticity of 1.1).

Of the 665,000 eligible families, 400,000 families (or 60 percent) were assumed to participate in AFDC if benefits were given for 12 months. With only 6 months of benefits, as CBO assumed, about 450,000 families on average for 6 months were estimated to participate. This is somewhat below the participation rate in the current AFDC unemployed parent (UP) program, which is estimated to be 65 percent to 70 percent.

Average monthly benefits per family were based on the TRIM2 simulation. They were projected to 1986 and beyond by using an estimated annual increase of 3.5 percent, based on the growth in AFDC benefits to UP families in the recent past (but not based on a mandatory minimum benefit).

These estimates are uncertain, for many of the same reasons discussed in the previous section for the estimates of the effects of the minimum benefit proposal. They might be too high, for three reasons. First, the underreporting of incomes on the CPS makes too many families appear to be eligible. Second, CBO used a participation rate of 60 percent, based on participation rates in the AFDC-UP program. But because most of the newly eligible families would have earnings or other sources of income, their participation rates might be lower than those among families with an unemployed parent. Third, the asset limitation on cars in AFDC cannot be simulated in TRIM2, and many—probably most—two-parent, low-income families have cars; thus many of the families estimated to be eligible for AFDC might in fact be ineligible.[5]

The estimates for mandating the AFDC-UP program in all states were developed in the same manner as those for extending benefits to all two-parent families. The TRIM2 simulation found 130,000 families to be newly eligible for AFDC-UP in 1984. Based on a comparison of the TRIM2 simulations for 1982 and 1984, the number of eligible UP families was found to be even more sensitive to changes in the unemployment rate than the number of all two-parent families (an elasticity of 1.5 versus 1.1). The number of eligible families was adjusted down to 110,000 to allow for a lower unemployment rate, and a participation rate of 65 percent was assumed.

Many uncertainties are associated with the number of families newly eligible for UP. For the same reasons noted above—income underreporting, ownership of cars, and uncertain participation rates—the CBO estimates might be too high. CBO has used an estimated average participation rate for the existing UP program, but participation in the South and West, where most of the newly eligible families would reside, is probably lower than in other regions.[6] Moreover, other methods for estimating numbers of new UP families showed a wide range. For example, if the proportion of new UP families to all UP families in the United States is assumed to be the same as the proportion of single-parent families on AFDC in new UP states to all single-parent families on AFDC, then there would be an estimated 150,000 new UP families. Using the same assumption on proportions, but limiting the comparison only to states in the South and West (excluding California), yielded an estimated 45,000 families.

All these estimates—as any estimates of newly eligible and participating families—are subject to considerable uncertainty. Moreover, for the reasons discussed, they might be too high. In addition to the uncertainties of estimating the number of new participating families, CBO has had to assume certain behavior on the part of states. Should the states behave differently—for example, by giving benefits for more than six months of each year—the true effects could differ significantly from the estimates presented in this paper.

INCREASING DEDUCTIONS FROM INCOME

The impact of increasing deductions from income in AFDC was estimated by simulations based primarily on the 1979 AFDC Recipient Characteristics Study, a survey of AFDC case records.[7] Because the 1979 study was conducted before passage of the Omnibus Budget Reconciliation Act of 1981, and so includes families currently ineligible for AFDC, it can be used to estimate the number of newly eligible families as well as the effects on current AFDC families for most of these proposed changes.

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[5] For more discussion of the asset test limitation in AFDC, see Chapter V on Liberalizing Asset Restrictions.

[6] Moreover, estimated participation rates in the UP program vary sharply among states, from less than 1 percent to more than 100 percent. See Michel and Willis, "Participation Rates," pp. 3–4.

[7] See Appendix K for a brief description of the 1979 AFDC Recipient Characteristics Study. Where relevant, estimates from a 1982 AFDC sample of beneficiaries, based on the AFDC quality control survey, and from TRIM2, were compared with the estimates from the 1979 study.

The estimates of the number of affected families—both current and new—and the change in their AFDC benefits were based on these simulations, adjusting for changes in the number of AFDC families and average AFDC benefits over the 1986-1990 period using CBO's baseline projections. Apart from the rising AFDC average benefits, the effects of most of the provisions would be essentially stable over time. For the work-related expense deduction equal to 20 percent of gross earnings, however, the increase in gains and decrease in losses over time discussed in Chapter IV were estimated based on the annual percentage increase in average hourly earnings in CBO's economic assumptions of August 1984 (ranging from 5.8 percent to 6.2 percent a year during 1986-1989). The change in a family's gain or loss each year would be equal to approximately 0.2 times the rise in the family's earnings.

Because all of the families in the 1979 data base had been participating in AFDC prior to passage of the 1981 act, CBO assumed that all of the families found to be newly eligible as a result of the increases in deductions would also participate.

Three of the provisions were estimated with alternative data: a portion of the $50 and one-quarter deductions, the Earned Income Tax Credit deduction, and the $50 of unemployment compensation deduction. The effects of providing the $50 and one-quarter deductions in determining eligibility (but not in determining benefits) were estimated in TRIM2. The TRIM2 simulation found that about 75,000 families would become newly eligible for AFDC with this change, most in states with high need standards.[8] The CBO assumed a participation rate of 75 percent because AFDC benefits to which these families would be entitled would be relatively low, leaving 55,000 newly participating families. Also based on TRIM2, the average monthly AFDC benefits of these families would be $87 in 1986. Because this provision was estimated separately, interactions with the other provisions could be estimated only roughly.

Estimates of the effects of disregarding the Earned Income Tax Credit were based on a 1982 sample of AFDC beneficiaries taken from the AFDC quality control survey. About 30 percent of AFDC earners were receiving a total of $1.9 million a month ($23 million a year) from the EITC. Changes in the Deficit Reduction Act should lower these receipts slightly, and CBO's estimates used an AFDC cost of $20 million a year ($15 million after related savings in the Food Stamp program) for disregarding the EITC.

Estimates of the $50 deduction of unemployment compensation were also based on the 1982 sample of AFDC beneficiaries. Approximately 30,000 AFDC families were receiving unemployment compensation in 1982 and were assumed to be receiving it in 1986-1990. Although declining unemployment would lower these numbers, the growth in the number of AFDC beneficiaries would raise them. Another 10,000 families were estimated to be newly eligible as a result of the $50 deduction, based on estimates from the 1982 food stamp survey adjusted for lower unemployment rates.

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[8] Where need standards are relatively low, a family working full time cannot qualify for AFDC even with the $50 and one-quarter deductions. But where need standards are relatively high, the $50 and one-quarter deductions can make a significant difference in eligibility.

LIBERALIZING ASSET RESTRICTIONS

To estimate the effect on AFDC costs and caseloads of changing the asset restrictions, it is necessary to determine how many families are income eligible for the program but asset ineligible. Then, knowing asset levels of these families, estimates can be made of the number of families who would become eligible for AFDC with various changes in the asset restrictions.

Estimates of the effects of changed asset tests are very uncertain, however. No reliable data currently exist on the asset holdings of families with incomes low enough to qualify for AFDC.[9] Two alternative data sets and simulations are used in CBO's estimates: TRIM2 and the Income Survey Development Program (ISDP) 1979 Research Panel.[10] These are the best data currently available, but they have serious deficiencies for estimating effects of changing asset tests.

TRIM2, which is based on the Current Population Survey, does not incorporate direct information on asset levels of families. Rather, estimates of asset levels are based on reported interest and dividend income and an assumed interest rate of 6 percent. For example, if reported annual interest income of a family was $250, and the interest rate that generated that income was 6 percent, then the asset level of that family was $4,167 ($4,167 x .06 = $250). This approach underestimates asset levels because many assets do not generate income—for example, many checking accounts, cars, life insurance, and even some financial assets. Moreover, total interest and dividend income on the CPS is underreported by more than 50 percent, and whether or not the extent of underreporting differs for families at various income levels is not known. On the other hand, the TRIM2 approach may overestimate asset levels because interest rates have typically been above 6 percent in recent years. For example, if the interest rate was 8 percent, $250 of interest income would imply an asset level of only $3,125 ($3,125 x .08 = $250), more than a thousand dollars less than if an interest rate of 6 percent was used.

Estimates from the ISDP are also problematic. While the ISDP provides reported asset levels by family, financial assets again are typically underreported by about 50 percent.[11] Moreover, the sample sizes are quite small. While approximately 281 families were simulated to be income eligible for AFDC, only 13 were clearly asset ineligible and only 4 became eligible for AFDC as a result of the H.R. 4920 asset test changes.

The ranges of estimates shown here attempted to adjust for some of these deficiencies, in particular that of underreporting. The upper ends of the ranges were developed by doubling the TRIM2 or ISDP estimates, under the assumption that the 50 percent underreporting of financial assets and interest income was nearly uniform across the income distribution. The low ends of the ranges typically used the estimates unadjusted for underreporting.

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[9] The Survey of Income and Program Participation, currently funded by the Bureau of the Census, will soon provide a better source of data, although it will also have problems for estimating effects of asset restrictions.

[10] See Appendix K for a brief description of the Income Survey Development Program.

[11] See the discussion of the ISDP in Appendix K.

In developing the ISDP estimates, reported amounts of assets were used, with two exceptions—cars and life insurance. For cars, ISDP provided market and equity values for 1979.[12] The 1979 values were inflated by the CPI for used cars to current levels. For life insurance, the ISDP does not provide the cash value of insurance policies—which families are unlikely to know—but only the face value and whether the policy has a cash value. Cash values are only a fraction of face values. Based on information from several life insurance companies, cash values appear to be only about 10 percent of face values after 10 years and 30 percent to 50 percent after 20 years. There is no way of knowing how long the ISDP families have owned the life insurance. For this reason, as well as because the face value amounts were quite low and because a number of families reporting receipt of AFDC held similar amounts of life insurance, life insurance holdings were not considered in these estimates. Many low-income families have life insurance, however, and this could lead to an underestimate of costs.

Under these assumptions, estimates were developed using TRIM2 and the ISDP of families becoming newly eligible as the asset restrictions were liberalized or removed. The ISDP estimates were well below those from TRIM2, except for the alternative of abolishing the asset restrictions, in which case the estimates were almost identical.[13] This discrepancy might result from the small ISDP sample size.

Estimates of the number of newly eligible families were adjusted downward to allow for less than full participation. A participation rate of 70 percent was assumed. This participation rate is less than the average 90 percent in AFDC for two reasons. First, two-parent families are a larger proportion of families affected by the asset restrictions than they are of families receiving AFDC, and the participation rate of two-parent families is less than the rate of single-parent families (65 percent to 70 percent, compared with 90 percent to 95 percent, respectively). Second, families with assets are better off than families with no assets and sometimes have higher incomes, reducing their participation in AFDC; in TRIM2, which incorporates a model for estimating participation rates, families newly eligible because of the changed asset tests were estimated to have participation rates about 20 percent lower than those currently eligible for AFDC.

Estimates of the number of newly participating families were held constant over the 1986-1990 period. Their average AFDC benefit levels were those estimated in TRIM2 for 1982, adjusted upward to 1986 and beyond by actual and projected increases in average AFDC benefits per family.

Compared with the estimates of other proposed changes in AFDC, such as mandating a minimum benefit, these estimates are very uncertain. The large range provided here should, however, encompass the true costs of liberalizing the AFDC asset restrictions.

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[12] Families reported the year, make, and model of each car, and imputed market values were made available on the ISDP.

[13] These comparisons were made after adding to TRIM2 the estimated effects of the asset test on cars based on the ISDP.

REDUCING STATES' FINANCING SHARES FOR INCREASES IN AFDC BENEFITS

To estimate the costs of reducing states' financing shares for increases in AFDC benefits, one must first estimate the size of those benefit increases. The CBO estimates that, under current law, average benefits to families with no income (maximum payment levels) would rise by 3.5 percent a year through 1990, based on actual increases in recent years. From a weighted average July 1984 benefit level for a three-person family of $356, benefits would rise to $438 in July 1990.

With these estimated benefit increases, a new weighted average federal financing share can then be calculated, as explained in Chapter VI. Federal payments under the new financing share and under the current 54 percent share can then be compared, and the federal cost of the new financing share can then be calculated.

The cost in any fiscal year would depend on the time of year in which the state would increase its benefits: the earlier the increase, the higher the cost to the federal government. In practice, different states increase benefits at different times of the year, although increases are clustered in the months of January and July. For purposes of this estimate, it was assumed that 40 percent of the benefit increases in a year would be made in January and 60 percent would be made in July, based on the actual pattern during 1984.

The estimates of CBO were based on benefits for a three-person family. The larger the family size, the larger the benefit level—and the larger the absolute increase in benefits would be for a given percentage increase. Thus, costs of this provision would be sensitive to family size. By using only a three-person family's benefit, costs could be biased somewhat. About 28 percent of AFDC families consist of three persons; 48 percent have fewer than three persons; and 25 percent have more than three. Although there are fewer large families, their benefit increases could be quite large, making the direction of the bias uncertain.

The foregoing procedure provided estimates for Scenario I in which states would not give any additional benefit increases. In estimating Scenario II, it was assumed that the savings to states from their reduced financing share under Scenario I would all be used to increase AFDC benefits. Knowing the states' share of this increase, and the states' average matching rate, the total (federal plus states') increase in benefits could be calculated. In 1986, for example, states' savings from their reduced financing share were estimated to be $0.1 billion; if this amount were used to increase benefits, then total benefits would rise by $0.3 billion (.1/.322, the states' financing share).

Although there are some uncertainties in these calculations of costs—primarily how fast AFDC benefits grow under current law—they are minor compared with the uncertainty of states' reactions to the incentive provided by H.R. 4920.

ENACTING THE PACKAGE OF PROPOSALS

Estimates of the number of new families for the combinations of proposals were based on TRIM2 simulations for 1984. Families were classified into two-parent or single-parent families, and somewhat different procedures were followed for each. The TRIM2 estimates of newly eligible two-parent families were adjusted in the same manner as discussed in Chapter III: the number of families eligible was reduced for an anticipated decline in unemployment rates from 1984 to 1986 and beyond, and a participation rate of 60 percent was applied. For single-parent families, TRIM2's estimate of the percentage change in new families resulting from interactions among the proposals was applied to the CBO estimate prior to interactions.

Average AFDC benefits for both the two-parent and single-parent families were based on TRIM2's estimates. These 1984 estimates were increased to 1986 and beyond by 4 percent a year, a rough average of the estimated increases for each of the proposals alone.

These estimates are subject to the many assumptions and uncertainties discussed in previous chapters. In particular, many uncertainties surround the estimates of families who would be newly eligible and would participate in AFDC. Costs in AFDC alone associated with these new families are estimated to be $3.4 billion in 1986, accounting for around 50 percent of total costs. Estimates for two-parent families are particularly uncertain, since all such families would be eligible for what would amount to an entirely new program. The CBO estimate of 0.9 million two-parent families participating in AFDC as a result of the change compares with an estimated 0.7 million to 0.9 million non-AFDC, two-parent families now participating in the Food Stamp program. In this light, the estimates appear reasonable, although they can never be certain.

APPENDIXES

A. Additional details about basic welfare programs: AFDC, Food stamps, Medicaid, subsidized housing

B. Selected supplemental cash and noncash transfer programs for poor children

C. Federal employment and training programs

D. AFDC and work

E. Chronology of congressional action on selected major income benefits for children (or families with children): 1960-1984

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APPENDIX A. ADDITIONAL DETAILS ABOUT BASIC WELFARE PROGRAMS: AFDC, FOOD STAMPS, MEDICAID, SUBSIDIZED HOUSING*

I. AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC)

GENERAL HISTORY

The Social Security Act of 1935 marked the Federal Government's entry into a broad range of social insurance and public welfare programs. The original set of programs included Old-Age Assistance, Aid to the Blind, Aid to Dependent Children (ADC), Unemployment Compensation, and Old-Age Insurance (i.e., Social Security). Unlike other provisions of the Act, the ADC program was regarded as minor. The purpose of the ADC program was to enable State to aid children[1] (under 16 years old) who had been deprived of the care and support of a parent because of his death, continued absence from the home, or physical or mental incapacity. The underlying perception was that the number of families headed by women, the majority of whom were widows, would remain small and that these mothers should remain at home caring for their children on a full-time basis rather than going to work. The payment of cash to the family was a direct solution to the loss of an earner in the family.

By 1961, two-thirds of AFDC children were found to be needy not because of the death of their father but because the father had left or had never been a part of the family unit. The welfare problem was perceived as larger and more complex than loss of a breadwinner and harder to solve. Congress decided that welfare checks must be supplemented by counseling and other social services. In its report on the Public Welfare Amendments of 1962, the House Committee on Ways and Means said the bill's approach emphasized "services to help families become self-supporting rather than dependent upon welfare checks." [2] Similarly, the Senate Finance Committee said its bill was designed "to encourage and assist the States to provide more rehabilitation services in order to get individuals off the welfare rolls . . . " [3] To stress the enlarged focus of the ADC program its name was changed to Aid to Families With Dependent Children (AFDC).

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* Carmen Solomon wrote the section on AFDC; Joe Richardson, Food Stamps and Subsidized Housing; and Jennifer O'Sullivan, Medicaid.

[1] It was not until 1950 that the ADC program was broadened to include the mother (i.e., one needy caretaker relative with whom the child was living).

[2] U.S. Cong. House. Committee on Ways and Means. Public Welfare Amendments of 1962; report to accompany H.R. 10616. March 10, 1962. Washington. U.S. Govt. Print. Off., 1962. 87th Congress, 2d Session. Report No. 1414. p. 3

[3] U.S. Congress. Senate. Committee on Finance. Public Welfare Amendments of 1962; report to accompany H.R. 10616. June 14, 1962. Washington. U.S. Govt. Print. Off., 1962. 87th Congress, 2d Session. Report No. 1589. p. 1

However, the AFDC rolls continued to grow. By 1967 the share of U.S. children under 18 who were enrolled in AFDC had reached 5.5 percent (from 3.7 percent in 1961) and the incidence of absent fathers of AFDC children climbed to three out of four. Congress turned to work requirements and work rewards [4] in hopes of reducing AFDC rolls and promoting self-sufficiency of welfare families.

Nevertheless, the share of AFDC families totally dependent on AFDC (with no earnings or other reported income) rose from 55 percent in 1967 to 86 percent in 1983 and the share of families eligible for AFDC because the child's father was absent from the home reached 88 percent (see table 2). Further, the share of U.S. children under 18 who were enrolled in AFDC was 16.5 percent in 1979.

In 1981 Congress stiffened work requirements, empowered States to require recipients to work for their AFDC checks, and imposed a 4-month time limit on the work incentive bonus. The latter provision effectively stopped the practice of permitting long-term supplementation of earnings by AFDC. Details of work requirements and rewards are discussed in Appendix D.

The 1981 law also lowered the countable resource limit to $1,000 per family (from $2,000 per family member) but prohibited the States from counting the home, which States previously could take into account. In addition, the 1981 Act disqualified from AFDC: students upon their 18th birthday (19th, at State option), strikers, unborn children (before third trimester of mother's pregnancy). It required States to count a portion of stepparent income, prohibited AFDC payments smaller than $10 monthly, and permitted States to establish work relief programs for AFDC recipients and authorized two other work programs.

The Tax Equity and Fiscal Responsibility Act of 1982, continuing in the same vein, sought to limit AFDC to only those who were "truly needy". The 1982 Act permitted States to prorate the shelter and utilities portion of benefits for shared households; eliminated parental absence for uniformed service as grounds for AFDC eligibility; permitted States to require job search of AFDC applicants; required States to prorate initial benefits to date of application and to round benefits down to the nearest dollar.

In 1984, however, Congress changed direction. In the Deficit Reduction Act it somewhat liberalized the AFDC program for earners. Further, the new law required States to provide Medicaid coverage for first-time pregnant women if they met their State's AFDC income and resource requirements, including those in two-parent families where the principal earner is unemployed (even if the State does not have an AFDC-Unemployed Parent program). Under the new law, States must give Medicaid to all needy children (born after October 1983) until their fifth birthday, and States retain the option of providing Medicaid coverage to all needy children until their 21st birthday.

The 1984 Act also required States to "pass through" to the family the first $50 a month in child support that it collects on behalf of AFDC children, but forbids the State to count these payments when calculating family income on which benefits are based.

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[4] In 1967, Congress also imposed a freeze, later suspended and eventually repealed, on the proportion of illegitimate AFDC children in each State whose benefits could receive Federal matching funds.

In addition, Congress enacted the Child Support Enforcement Amendments of 1984. These amendments seek to strengthen child support enforcement, primarily by requiring States to adopt certain child support collection procedures for overdue payments, including mandatory income withholding, and by revising the incentive payment program to account for collections made on behalf of non-AFDC families.

Eligibility

In order to qualify for AFDC benefits, a child (and his or her caretaker relative) must meet income and resource requirements in addition to being deprived of support or care of one parent because the parent is dead, incapacitated, or continuously absent from home (and in some States unemployed). Most AFDC recipients also are eligible, on income and assets grounds, for food stamps (before 1979 all were); and all automatically are eligible for Medicaid.

Age of child.—As enacted in 1935, the AFDC provisions defined "child" as a person under age 16. In 1939, States were given the option of extending AFDC eligibility to needy children aged 16 and 17 if they were attending school regularly. In 1956, States were able to receive Federal funding even if the State AFDC program included 16 or 17 year old needy children *not* attending school. In 1964, States were permitted to receive AFDC Federal matching for needy children aged 18 through 20 who attended high school or were enrolled in a vocational or technical training course. By 1965, States could receive Federal matching for all needy AFDC children under age 21 if they were attending high school, college or a university or were taking a vocational or technical training course.

In 1980, the law allowed States to choose from three options for establishing a maximum age for AFDC child eligibility. States could limit eligibility to a child who was (1) under age 18, (2) under 21 and a student regularly attending a secondary school, college or university, or regularly attending a vocational or technical training course, or (3) under age 21 and a student regularly attending high school or a vocational or technical training course, but not college. Option 3 was added by Public Law 96-611.

In 1981, the Omnibus Budget Reconciliation Act (OBRA) limited the definition of an AFDC child to a needy person under the age of 18 or, at State option, under the age of 19 if the child was a full-time student expected to complete high school or equivalent technical training before reaching age 19. Under the 1981 statute, needy children aged 18 and older who are college students do not qualify for AFDC benefits. Further, the AFDC work requirements were modified to exempt only those parents who are providing care for a young child with only brief and infrequent absences from the child. In its report on OBRA,[5] the Senate Finance Committee said that "the work requirements should be applied in such a way that persons who are able to work are in fact required to do so." The report said "AFDC is basically intended to assist persons who cannot work. Persons who choose to attend college do not meet that basic criterion." The report further stated that "It is difficult to justify asking taxpayers who may be unable to afford college for themselves or their children to support a public assistance program that enables others to do so." Hence, under the 1981 legislation children age 18 and older who are attending college no longer qualify for AFDC payments and parents are subject to the work requirements and, thus, in theory would not be able to attend college on a regular basis.

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[5] U.S. Congress. Senate. Committee on Finance. Omnibus Reconciliation Act of 1981; report to accompany S. 1377, June 17, 1981. Report No. 97-139. p. 515.

Unemployed parent program.—The original Social Security Act permitted States to give AFDC only to needy children in one-parent homes, unless the second parent was incapacitated. Then, as now, most AFDC children lived in fatherless homes. For the first 25 years of the program, if a parent lost his job and his family became needy, State AFDC programs were forbidden to help the family so long as he lived at home. In 1961, in an antirecession measure, Congress enacted temporary legislation allowing States at their option to provide assistance to families in which a parent was unemployed. The law was changed so that jobless parents at home would not disqualify their families for welfare. States, however, were forbidden to aid the family of an unemployed parent if the parent, without good cause, refused to accept work. In 1967, this legislation was made permanent, but eligibility was limited to families in which only the father was unemployed.[6]

At first the States defined "unemployment," and some included fathers who worked as much as 35 hours a week, but since 1971 Federal regulations have specified that an AFDC parent can work no more than 99 hours a month to be classified as unemployed.

Congress in 1981 (P.L. 97-35) specified that the qualifying unemployed parent must be the family's principal earner. Almost half of the 54 jurisdictions with AFDC programs never have used the options to give AFDC benefits to the unemployed and partly employed. Currently 25 jurisdictions have the Unemployed Parent program. Expansion of AFDC eligibility to unemployed parents has been resisted, because of opposition to welfare for the able-bodied, and at least in some of the remaining States, because of added Medicaid costs. As mentioned before, a family that is eligible for AFDC automatically is eligible for Medicaid.

Provision for pregnant women with no other children.—By statute, AFDC is paid on behalf of a needy dependent child who is living with a specified relative. In the case of *Burns* v. *Alcala,* the Supreme Court rules that the term "dependent child" does not include unborn children, and hence a State receiving Federal matching for AFDC is not required to offer welfare benefits to pregnant women for their unborn children. This left in effect a longstanding regulation that a State may provide payments on behalf of an unborn child when pregnancy has been medically verified. The Solicitor General argued on behalf of the Department that the regulation authorizing Federal participation in AFDC payments to pregnant women was based on the agency's general authority to make rules for efficient administration of the Act rather than on the definition of the term "dependent child." [7]

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[6] In 1967, the Unemployed Parent program was renamed the Unemployed Father program and, Federal matching was available only for families in need because of the unemployment of the father. In 1979, the Supreme Court ruled in *California* v. *Wescott* that it is unconstitutional to make AFDC benefits available to families with an unemployed father but not a family with an unemployed mother.

Presently, assistance to pregnant woman is an option available to States, and it may be provided by either or both of two methods. A pregnant women who has no other children but who would be eligible for AFDC if the child were born and living with her may be granted the amount of assistance designated for one adult in the State need standard. A pregnant woman with a child or children already on AFDC as well as one with no other children may be granted a special needs allowance. Neither of these provisions may begin earlier than the sixth month of a medically verified pregnancy. As of October 1983, 31 States permitted pregnant women with no other children to receive AFDC payments in the sixth month or later of a medically verified pregnancy. The Deficit Reduction Act of 1984 requires States to provide Medicaid coverage for first-time pregnant women whose income and resources are within their State's AFDC limits. But whether these women receive AFDC cash payments is a State decision (Federal funding for such benefits, however, is available only after the sixth month of pregnancy).

Work requirements

When the Social Security Act was passed in 1935, work and training were considered inappropriate for those who qualified for public assistance. It was generally agreed that needy persons who were aged, blind or dependent children (and their caretaker relatives) were unemployable. The 1961 AFDC Characteristics survey, however, showed that during November-December 1961, 4.6 percent of AFDC mothers worked full time and 8.3 percent of such mothers had part-time jobs.

Beginning in the early 1960s, through various legislation, Congress affirmatively stated that work and training programs were desirable for welfare recipients, particularly the adult recipients of AFDC. In 1961, Congress authorized aid, optional with the States, for a child needy because of a parents' unemployment. In 1962, the Community Work and Training Program (CWTP) was enacted. CWTP allowed States to require AFDC recipients aged 18 and older to "work off" their AFDC benefit. CWTP established standards for health and safety, minimum wage, workmen's compensation, work expenses, child care and the type of work and training.

The Social Security Amendments of 1967 established the Work Incentive (WIN) program to provide job training, employment placement and, to improve the occupational skills of AFDC recipients 16 years of age or older to help them become self-supporting.

The Social Security Act, as amended by Public Law 97-35 and Public Law 97-248, permits States to offer a number of employment programs. States may operate job search, community work experience programs, work supplementation, and WIN demonstration programs. All States must have a WIN program or a WIN demonstration program. (See Appendix D for more detailed information on the work requirements and programs.)

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[7] Supreme Court of the United States. *Burns, Commissioner, Department of Social Services of Iowa, et al.*, v. *Alcala et al.*, 95 S. Ct. 1180 (1975).

Foster care

In 1961 Federal matching funds were offered for foster care of AFDC children removed from their homes after a judicial determination that such action was in the best interest of the child, and in 1967 States were required to establish foster care programs. In 1980 Congress amended the law to require each State to establish by October 1, 1982, an Adoption Assistance program (title IV–E of the Social Security Act) for AFDC or Supplemental Security Income (SSI) children with "special needs." The 1980 legislation also established new foster care rules, imposed a potential ceiling on foster care funds, and moved that program to title IV–E. (See section on foster care in Appendix B for additional information.)

Child support enforcement

In the years before the 1975 child support program was enacted, a number of measures were passed to strengthen the law on behalf of children deprived of their parents' support because of desertion and illegitimacy.

Congress passed the first child support legislation in 1950. It required State welfare agencies to notify appropriate law enforcement officials when AFDC benefits were given to a child who had been deserted or abandoned.

In 1967, Congress instituted what it thought would be an effective program of enforcement of child support and determination of paternity. The 1967 amendments to the Social Security Act required the State welfare agencies to establish a single, identifiable unit with the responsibility of undertaking to establish the paternity of each child receiving welfare who was born outside of marriage and to secure support for that child.

Although it was hoped that the States would use the 1967 mandate to improve their programs on behalf of deserted children, most States failed to do so. In 1975 Congress enacted the child support enforcement program (title IV–D of the Social Security Act), which represented a major new Federal commitment to deal with the problem of nonsupport of children. The law stated the purposes of the new program to be: "enforcing the support obligations owed by absent parents to their children and the spouse (or former spouse) with whom the children are living, locating absent parents, establishing paternity, and obtaining child and spousal support." Title IV–D also required that an AFDC applicant or recipient, as a condition of AFDC eligibility, assign her child support rights to the State and cooperate with the State in establishing paternity of a child born outside of marriage and in obtaining support payments.

In 1984, Congress enacted amendments designed to strengthen the 9-year-old child support enforcement program. The new amendments reflect an effort to refocus the program to serve all children in need of child support enforcement services, regardless of their circumstances. In addition, the amendments require States to use stringent enforcement tools, including mandatory wage withholding, in cases involving arrearages. (See Appendix B for a discussion of child support payments and their affect on reducing poverty among children and families.)

FEDERAL AND STATE ROLES

Under the AFDC program Federal funds are available to all States, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands for the purpose of strengthening family life by providing financial assistance and care to needy dependent children in their own homes or in the homes of responsible caretaker relatives. Under matching formulas in the Social Security Act, about 54 percent of each AFDC benefit dollar is paid by the U.S. Treasury and 46 percent by the States. The Federal share varies among States and is inversely related to State per capita income, squared.[8] The Federal Government pays at least 50 percent of each State's AFDC benefit payments and more than 70 percent in eight States; and 50 percent of their adminstrative costs. States decide whether their localities must help pay for the State's AFDC program. As of October 1, 1983, 10 States required their localities to pay some portion of benefit costs, and 16 States required them to help pay administrative costs. The Federal Government imposes no ceiling or floor on State AFDC benefit levels. And, because AFDC is an open-ended entitlement program, the Federal Government is obliged to pay its stated percentage of each State's AFDC benefit payments.

Open-ended Federal grants, with matching rates between 50 and 77.63 percent, give the Federal Government a significant stake in the AFDC program. However, since the States set their own eligibility standards within outer Federal bounds, establish benefit levels, and choose whether to participate or not, the Federal Government has little immediate or direct control over total spending, benefit levels, or distribution of grant funds across States. AFDC maximum benefit levels for a family of three with no countable income, for example, vary from $96 per month in Mississippi to $719 per month in Alaska (January 1985 data), a range that far exceeds the difference in the cost of living in the two States.

Diverse views abut how to define the "deserving" poor are illustrated by the variations in eligibility and payment provisions across States. States vary in their treatment of unborn infants and children between 18 and 19, their willingness to provide assistance to families with an unemployed parent, their work requirements and resource limits. Although some of this variation may reflect differences in the ability of States to finance welfare programs, some is thought to represent differences in attitudes.

Table 1 illustrates the variations in State coverage of AFDC families. It shows that as of October 1, 1983, 41 jurisdictions provided coverage to high school students over 18 but under 19. In 13 jurisdictions the child had to be under age 18. Thirty-one jurisdictions made payments to pregnant women with no other children, most beginning with the sixth month of pregnancy. Twenty-five jurisdictions offered AFDC to needy families in which the principal earner was unemployed (a recipient can work up to 99 hours a month and still be classified as unemployed). Twenty-one jurisdictions had workfare programs (usually, only in some counties) in which recipients were required to work in exchange for their AFDC benefits. In such programs the recipient does not become a paid employee but instead, works off the AFDC benefit. Twenty jurisdictions had a WIN demonstration program instead of a WIN program. Only one State was participating in the work supplementation program. Under this program States are allowed broad discretion in establishing employment programs in which AFDC recipients may, as an alternative to receiving AFDC payments, volunteer to participate. In 47 jurisdictions the resource limit (which excludes the home) was set at the Federal ceiling; $1,000 in equity value per family. The equity value of non-exempt personal property held by the family in the other seven States was below $1,000.

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[8] For more information on the AFDC matching formulas, see Analysis of Federal-State Cost-Sharing in the Aid to Families With Dependent Children Program, March 1982. (CRS Report No. 82-62 EPW)

TABLE 1.—STATE COVERAGE OF AFDC RECIPIENTS

	Age [1]	Coverage of pregnancy [2]	Unemployed parent program [3]	Work programs [4]	Resource limit
Alabama	18	No	No	CWEP	
Alaska	18	7th	No	None	
Arizona	19	No	No	Demo	
Arkansas	18	No	No	Demo	$800
California	19	6th	Yes	CWEP	
Colorado	19	6th	Yes	CWEP	
Connecticut	19	6th	Yes	None	250
Delaware	18	9th	Yes	Demo	
District of Columbia	19	6th	Yes	None	
Florida	18	6th	No	Demo	
Georgia	18	No	No	CWEP	
Hawaii	19	6th	Yes	None	(5)
Idaho	19	6th	No	CWEP	
Illinois	19	No	Yes	Demo	
Indiana	18	No	No	None	(5)
Iowa	19	No	Yes	Demo & CWEP	
Kansas	19	6th	Yes	CWEP	
Kentucky	19	No	No	CWEP	
Louisiana	19	6th	No	None	
Maine	19	No	No	Demo	(5)
Maryland	19	6th	Yes	Demo	
Massachusetts	19	6th	Yes	Demo	
Michigan	19	6th	Yes	Demo & CWEP	
Minnesota	19	7th	Yes	CWEP	
Mississippi	18	No	No	None	
Missouri	19	No	Yes	None	
Montana	19	6th	No	None	
Nebraska	19	6th	Yes	Demo	
Nevada	19	6th	No	None	(5)

TABLE 1.—STATE COVERAGE OF AFDC RECIPIENTS—Continued

	Age [1]	Coverage of pregnancy [2]	Unemployed parent program [3]	Work programs [4]	Resource limit
New Hampshire	18	No	No	None	
New Jersey	19	No	Yes	Demo	
New Mexico	19	6th	No	CWEP	
New York	19	6th	Yes	CWEP	
North Carolina	19	No	No	CWEP (sec. 1115)	
North Dakota	19	6th	No	CWEP	
Ohio	19	6th	Yes	CWEP	
Oklahoma	19	No	No	Demo & CWEP	
Oregon	19	9th	No	Demo	
Pennsylvania	19	No	Yes	Demo CWEP	
Rhode Island	19	6th	Yes	None	
South Carolina	19	No	No	CWEP	
South Dakota	19	No	No	Demo & CWEP	
Tennessee	18	7th	No	None	
Texas	19	No	No	Demo	
Utah	19	6th	No	None	
Vermont	18	6th	Yes	none	
Virginia	19	No	No	Demo & CWEP	600
Washington	19	7th	Yes	CWEP	
West Virginia	18	No	Yes	Demo & CWEP	
Wisconsin	19	7th	Yes	Demo	
Wyoming	19	6th	No	None	
Guam	19	6th	Yes	None	
Puerto Rico	18	No	No	None	
Virgin Islands	19	No	No	None	

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[1] Eligibility for AFDC ends on a child's 18th birthday, or at State option upon a child's 19th birthday if the child is a full-time student in a secondary or technical school and may be expected to complete the program before he or she reaches age 19.

[2] States at their option may provide AFDC to pregnant women. However, Federal matching for pregnant women with no other children is available only after the 5th month of a medically verified pregnancy. The numbers in this column represent the month of pregnancy in which the State begins AFDC payments to pregnant women with no other children.

[3] States at their option may offer AFDC to children in two-parent families who are needy because of the unemployment of one of their parents.

[4] The Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) established three employment programs which States can implement: the work incentive (WIN) demonstration program, the community work experience program (CWEP), and the work supplementation program.

[5] Varies.

CHARACTERISTICS OF AFDC FAMILIES

In 1983, the average AFDC family consisted of three persons, one adult and two children. AFDC families primarily resided in cities. AFDC families were about equally divided between white and other races (blacks made up 44 percent of the AFDC caseload in 1979). Close to half of all AFDC families lived in households that included non-AFDC members. In almost 90 percent of all AFDC families the father of the children was absent from home; in almost half he was not married to the mother. The percentage of families in which the father was not married to the AFDC child's mother climbed from 21 percent in 1961 to 32 percent in 1973 to 47 percent in 1982 and 1983. In 1979 more than one-third of AFDC children were under age 6 and about fourth-fifths were under age 14. The average age was just over 8 years. Boys outnumbered girls slightly. Only about one AFDC family out of 17 had earnings in the survey month. The average AFDC family had received AFDC for only 2 years. (See table 2.)

TABLE 2.—CHARACTERISTICS OF AFDC FAMILIES, 1961–83

	Nov/ Dec. 1961	Nov./ Dec. 1967	May 1969	Jan. 1971	Jan. 1973	May 1975	Mar. 1977	Mar. 1979	May 1982 [1]	Mar. 1983 [1]
Average family size	4.2	4.2	4.1	3.9	3.6	3.3	3.2	3.0	2.9	2.9
Percentage of fathers—										
Dead [2]	7.7	5.5	5.5	4.3	4.0	3,7	2.6	2.2	...	...
Absent [2]	66.7	74.2	75.4	76.2	80.4	83.3	84.8	86.9	87.6	88.4
Not married to mother [2]	21.3	26.8	27.9	27.7	31.5	31.0	33.8	37.8	46.5	47.4
Percentage of working mothers with—										
Full-time jobs	4.6	.6	7.5	8.3	9.8	10.4	8.4	8.8	...	1.6
Part-time jobs	8.3	7.1	5.8	5.6	6.3	5.7	5.4	5.4	...	3.7
Percentage of families:										
With earnings	19.2	19.2	18.7	17.2	16.5	14.6	12.9	12.9	5.9	6.0
With only AFDC income	55.2	54.8	56.0	59.5	66.9	71.1	78.2	80.7	87.5	86.2
Median number of months on AFDC	25.0	25.0	23.0	19.0	24.0	...	...	29.0	26.0	25.0
Race (percent):										
White	51.6	52.9	48.1	48.3	46.9	50.2	52.6	51.7	...	...
Black	43.3	44.5	45.2	43.3	45.8	44.3	43.0	43.9	...	...
Percent of households that include non-AFDC members	42.9	36.2	33.8	34.1	34.9	34.8	34.8	40.7	48.1	44.0

[1] There is a special problem in matching current recipient characteristics data for May 1982 and March 1983 with those of previous years because the data sources differ. The sources of characteristics through 1979 were individual surveys of similar design specially conducted to gather recipient characteristics from agency case files. In contrast, the current data were derived from the information available from May 1982 and March 1983 quality control case sample.

[2] The data for 1973–79 are not comparable to other years because they represent AFDC "children" whose father was dead, absent, or not married to their mother rather than AFDC "families" by status of father. In 1967, we have data on both the status of the father with respect to the children and the family. Percent of AFDC children whose father was dead, absent, or not married to mother; 5.3, 70.4, and 21.9 percent, respectively.

Source: Congressional Research Service based on AFDC recipient characteristics studies, conducted by the Department of Health and Human Services.

II. THE FOOD STAMP PROGRAM

HISTORY

The modern food stamp program was established with the Food Stamp Act of 1964.[9] This law allowed States to offer federally funded food stamp aid to households that met the standards already established for their cash welfare programs, but without the categorical limits used in those programs, such as deprivation of the support of a parent. It also required that participating households put a portion of their own monthly cash income to "buy into" the food stamp program. Participants bought a food stamp allotment that was worth more than the amount they paid. In effect, the program offered a Federally financed, optional supplement to State cash welfare efforts of the time.

Until benefits were made nationally standard and increased substantially, and eligibility limits taken from State hands, liberalized, and made nationally uniform, food stamp aid was offered in only about half the country. But, with increased benefits and nationally uniform eligibility standards,[10] and 1973 legislation that threatened to remove other methods of food assistance,[11] the food stamp program became nationally available by early 1975. However, States still have the option to withdraw totally.

The final major changes in the food stamp program occurred in 1979, as the result of a 1977 rewrite of the Food Stamp Act. The requirement that participating households pay for their food stamp allotment was repealed. Thereafter, rather than buying a monthly food stamp allotment worth more than their purchase requirement and receiving a "bonus" amount as their benefit, participants received the bonus amount outright. It was assumed that they would use some of their own income (roughly their old purchase requirement amount) to buy food, with food stamp benefits as a supplement. In addition, the 1979 implementation of the 1977 legislation placed limits on the degree to which non-food household expenses could be taken into account in determining eligibility and benefits. This was done by limiting so-called "deductions" (discussed below).

The net result of the changes in the course of the food stamp program's history is that it has evolved from a food-buying supplement of limited availability to an almost universally available income guarantee program, although a small guarantee (roughly $70 per person per month, with benefits received in early 1985 averaging nearly $45) and one usable only for food.

The food stamp program now operates in the 50 States, the District of Columbia, the Virgin Islands, and Guam.[12] Under the authority of the Food Stamp Act of 1977, the Federal Government establishes the rules that govern administration, eligibility, and benefits; and with certain minimal variations for Alaska, Hawaii, and the territories, they are nationally uniform. States are in charge of day-to-day administration and decide whether or not to offer the program; but, if a State chooses to offer it, it must do so throughout the State.

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[9] Earlier food stamp programs included a 1939-1943 effort to increase consumption of "surplus" commodities, and 1961-1964 pilot projects that were prototypes for the 1964 act.

[10] This was done in stages. In 1970, administrative decisions were taken to standardize and liberalize benefits. In 1971, legislation affirmed these administrative decisions, required nationally uniform eligibility standards, and further increased benefits through a requirement that they be indexed.

[11] 1973 legislation required that any State choosing to offer food stamp aid in any part of the State must do it Statewide, and effectively removed the only food assistance alternative (distribution of Federally donated commodities).

[12] A special program of cash benefits for food assistance is operated in Puerto Rico, using an annual $825 million Federal block grant. A specially designed food stamp program is operated in the Commonwealth of the Northern Mariana Islands.

The cost of operating the food stamp program is shared. The bulk of the cost is paid by the Federal Government: all benefit costs; Federal administrative expenses; and approximately 50 percent of State and local administrative costs. States, and, in some cases, localities, pay the remaining costs; namely, about 50 percent of expenses for State and local administration.

ELIGIBILITY

The food stamp program imposes two major tests for eligibility: income limits and liquid assets limits. With certain exceptions, all households must pass food stamp eligibility requirements; the exceptions are for those who have already met similar requirements for receipt of cash welfare.

Generally, all individuals living together and purchasing and preparing food in common constitute a food stamp "household" and must apply together; the income and assets of all household members are aggregated in determining eligibility and benefits. Exceptions to this general rule include modifications that require persons to apply together if they live together no matter whether they separately purchase and prepare food, and that allow related elderly and disabled persons to apply separately regardless of the relatedness rule.

For families with children, the food stamp program typically considers both the household's gross and countable monthly cash income.[13] A household's monthly gross income is all cash income except for energy assistance payments, a portion of student aid, reimbursements for expenses, and certain other income required to be disregarded by other Federal laws. It must fall below the monthly equivalent of 130 percent of the Federal poverty guildelines. In addition, its countable monthly income must fall below the Federal poverty guidelines themselves. Countable income is gross income less certain "deductions" (discussed below).

For families with children, countable monthly income typically excludes the following deductions:[14]

—An inflation-indexed standard deduction, set at $95 a month for Fiscal Year 1985, regradless of household size;

—18 percent of any earned income, in recognition of taxes and work expenses;

—Work- or training-related expenses for the care of a dependent, such as day care for a child; and

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[13] If a household has an elderly or disabled member, only the countable income test (discussed below) is used.

[14] Households with elderly or disabled members may also deduct the medical expenses of that member, to the extent they exceed $35 a month.

—Monthly shelter expenses, to the extent they exceed 50 percent of the countable income remaining after all other potential deductions have been subtracted out.

However, the total of excluded dependent-care and excess shelter-expense deductions cannot exceed an inflation-indexed ceiling, set at $134 a month for FY 1985.[15]

Eligible households must also have liquid assets below $1,500,[16] excluding the value of a home, a portion of the value of motor vehicle, business assets, household belongings, and certain other limited classes of assets (for example, the value of a burial plot). AFDC households are exempt from this test, having met a similar test for AFDC eligibility.

The few categorical eligibility rules in the food stamp program are also of some note. Illegal and temporarily resident aliens are ineligible. Strikers and those who have voluntarily quit a job without good cause are ineligible. Postsecondary students are ineligible unless, having met the normal income and assets tests, they are working at least half-time or have dependent children. SSI recipients in two States (California and Wisconsin) are ineligible; their SSI cash benefits have been increased somewhat to take into account lost food stamp benefits.

WORK RULES

As with other welfare programs, the food stamp program has a set of employment-related requirements. In order to retain eligibility, unemployed or partially employed able-bodied adult household members must register for, seek, and accept suitable employment, if offered. Exceptions are provided for those: 18 or under, 60 or over, caring for dependents (disabled or under age 6), already complying with another program's similar work requirements, working at least 30 hours a week (or earning the minimum-wage equivalent), otherwise eligible post-secondary students, and residents of drug addiction or alcoholic rehabilitation programs. A further requirement, that work registrants conduct a monitored "job search" (typically requiring a certain number of job contacts), is enforced at State option. Finally, States and localities may opt to operate a "workfare" program under which work registrants must "work off" their household's food stamp allotment in public service employment assigned by the welfare agency. Under such a program the number of hours required are calculated by dividing the household's monthly allotment by the minimum wage.

III. MEDICAID

RECENT LEGISLATIVE CHANGES

Several changes have been made since 1980 in Federal Medicaid rules governing mandatory and optional coverage of children. The Omnibus Budget Reconciliation Act of 1981 (OBRA) (P.L. 97-35) modified requirements for coverage of the medically needy. The

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[15] For households with elderly or disabled members, the $134 limit applies only to dependent-care expenses deductions.

[16] Households of two or more, with at least one elderly member, may have liquid assets of up to $3,000.

Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) (P.L. 97-248) authorized Medicaid coverage for certain disabled children living at home. The Deficit Reduction Act of 1984 (DEFRA) (P.L. 98-369) mandated Medicaid coverage for certain young children and pregnant women previously covered by the States on an optional basis. (These laws are referred to as OBRA, TEFRA, and DEFRA, respectively.)

In 1981, as part of OBRA, Congress made some changes in the requirements for medically needy programs that have potential impact for coverage of children and pregnant women. Before enactment of OBRA, States having medically needy programs were required to extend comparable coverage to all four eligibility groups (aged, blind, disabled, and members of families with children). The OBRA provides that if a State offers medically needy coverage to any group it must, at a minimum, provide ambulatory services to children and prenatal and delivery services for pregnant women. Several States that previously did not offer medically needy coverage are in the process of establishing so-called limited medically needy programs pursuant to the OBRA provision.

In 1982, as part of TEFRA, Congress permitted States to extend Medicaid to certain disabled children under age 18 who are living at home and would be eligible for SSI (and therefore Medicaid) if they were institutionalized. The State must detemine that: (a) the child required the level of care provided in an institution, (b) it is appropriate to provide such care outside of the facility, and (c) the cost of care at home is no more than institutional care.

In 1984, the Congress approved several significant changes relating to the coverage of children and pregnant women. The original Medicaid legislation authorized States to extend coverage to "Ribicoff children." As of 1984, almost all States provided protection for at least some of these children, though in many States coverage was restricted to certain categories such as children in foster care or subsidized adoptions. The DEFRA required states beginning October 1, 1984, to cover all Ribicoff children under age five who are born after October 1, 1983. Thus, by October 1988, States will be required to offer Medicaid protection to all children under age five meeting the State's AFDC income and resources requirements regardless of whether the child meets the AFDC definition of dependent child. The impact of this legislation will vary by State. Some States already cover these children, but many States have covered only limited subsets of the eligible population.

The DEFRA also made several changes regarding coverage of first-time pregnant women. Since October 1, 1984, States have been required to cover such women from the medical verification of pregnancy, provided they meet the AFDC income and resources requirements. States also are required to offer coverage to first-time pregnant women in two-parent families where the principal breadwinner is unemployed. Before October 1, 1984, coverage for first-time pregnant women was optional, although most States provided Medicaid protection, at least during the third trimester.

A number of changes concerning medicaid coverage of children have stemmed from changes made in the AFDC program. Perhaps the most significant changes were those made in 1981 by OBRA. The OBRA changes to the AFDC program were designed to target cash assistance to persons most in need. However, persons who lost AFDC also lost automatic Medicaid coverage. As a result of the AFDC revisions, approximatley 400,000 families lost AFDC eligibility and its guarantee of Medicaid coverage, though some of these persons may have been able to regain Medicaid protection in those States that had a medically needy program. The reduction in numbers of children eligible for AFDC and therefore Medicaid as a result of the OBRA provision was partially offset in 1982 by an increase in the number of children who became eligible because the recession cut their family income. As noted in Chapter VI, the DEFRA requires States to extend protection for 9 months to earners who lose AFDC eligibility coverage because the "one-third disregard" no longer applies to them. Further, States are permitted to extend protection to this group for an additional 6 months. It is estimated that 55,000 families will come on the rolls in FY 1985 as a result of this provision. Beginning in FY 1986 the number is expected to level off at 35,000 families.

RECIPIENTS

Approximately 21.5 million persons received Medicaid services in FY 1983. Of these, 9.4 million were classified as dependent children (in AFDC-type families) and an additional 1.3 million were classified as "other persons" (the majority of whom were children). These figures have remained relatively constant since FY 1974. This is not only because Congress has placed restrictions on eligibility but also because States generally have structured their programs so as to limit the expansion of the covered population.

Table 3 shows the total number of child and adult recipients by category over the FY 1972–1983 period (earlier data contain some inconsistencies and are not presented here). The category labeled "other persons" is primarily composed of "Ribicoff children." These are persons under age 21, 20, 19, or 18, who do not meet the definition of an AFDC dependent child but whose income and resources fall within their State's AFDC income and resource limits.

The Administration estimated in February 1985 that of the 22.5 million recipients estimated for FY 1986, 9.4 million would be dependent children under age 21, 5.4 million would be adults in AFDC families, and 1.5 million would be persons classified as "other persons."

Excluding data from the territories, about 71 percent of program recipients in FY83 were dependent children under 21 and adults in AFDC families. An additional three percent were classified as "other persons" (see Table 4).

TABLE 3.—MEDICAID RECIPIENTS: TOTAL AND SELECTED ELIGIBILITY CATEGORIES, FISCAL YEARS 1972–83

[Numbers in thousands]

Fiscal year	Total	Persons in AFDC-type families		"Other persons" [1]
		Children under age 21	Adults	
Ending June:				
1972	17,606	7,841	3,137	1,576
1973	19,622	8,659	4,066	1,495
1974	21,462	9,478	4,392	1,502
1975	22,007	9,598	4,529	1,800
1976	22,815	9,924	4,774	1,836
Ending September:				
1977	22,831	9,651	4,785	1,959
1978	21,965	9,376	4,643	1,852
1979	21,520	9,106	4,570	1,727
1980 [2]	21,605	9,333	4,877	1,499
1981 [2]	21,980	9,581	5,187	1,364
1982 [2]	21,603	9,563	5,356	1,434
1983 [2]	21,494	9,418	5,467	1,325

[1] Primarily "Ribicoff children," defined in text.

[2] Beginning in fiscal year 1980, recipients' categories do not add to total due to the small number of recipients that are in more than one category during the year.

Note: Table includes data from the territories.

Sources: Social Security Bulletin, Annual Statistical Supplement, 1983, Social Security Administration Publication No. 13-11700.

TABLE 4.—MEDICAID: NUMBER OF RECIPIENTS BY SELECTED CATEGORIES OF RECIPIENT, FISCAL YEAR 1983

[Numbers in thousands]

	Total [1]	Categorically needy	Medically needy
AFDC type children under 21	9,030	8,363	667
Adults in AFDC families	5,138	4,639	498
"Other persons" [2]	662	167	495
Total	19,936	17,972	2,784

[1] The totals reflect unduplicated counts of the numbers of recipients. Since a beneficiary may be placed in more than one classification during the course of a year, the sum of the subcategories may exceed the total figures.

[2] Primarily "Ribicoff children," defined in text.

Note: Table excludes data from the territories.

Source: HCFA, unpublished tables.

SERVICES

There are major variations among the States with respect to the amount, duration and scope of services provided under Medicaid.

States are *required* to offer the following services to categorically needy recipients under their Medicaid programs:

—Inpatient hospital services (other than services in an institution for tuberculosis or mental diseases);

—Outpatient hospital services;

—Physicians' services;

—Laboratory and x-ray services;

—Skilled nursing facility (SNF) services for individuals over age 21;

—Early and periodic screening diagnosis, and treatment (EPSDT) for individuals under age 21;

—Family planning services and supplies;

—Home health care services for those entitled to SNF care;

—Rural health clinic services to the extent permitted by State law; and

—Nurse midwife services.

States *may* also provide any of a broad range of *optional* services including drugs, intermediate care facility services, eyeglasses, and inpatient psychiatric care for persons under age 21 (see table 5).

States may establish limitations, for both mandatory and optional services, on the amount of care provided under a specific service category. For example, they may limit the number of days of covered hospital care or the number of physicians' visists. In addition to durational limits, States may establish other controls on services, for example, imposing a prior authorization requirement or limiting coverage of drugs to those listed in a formulary.

Before enactment of OBRA in 1981, States having medically needy programs were required, as a minimum, to offer this population group either all of the mandatory services, or alternatively the care and services listed in seven of the 17 paragraphs in the law defining covered services providing certain conditions (including offering a mix of institutional and noninstitutional services) are met. The OBRA modified the requirements for services provided to the medically needy by specifying that: (1) if a State provides medically needy coverage to any group it must provide ambulatory services to children and prenatal and delivery services for pregnant women; (2) if a State provides institutional services for any medically needy group it must also provide ambulatory services for this population group; and (3) if the State provides medically needy coverage for persons in intermediate care facilities for the mentally retarded, it must offer to all groups covered in its medically needy program the same mix of institutional and noninstitutional services as required under prior law.

TABLE 5.—OPTIONAL SERVICES IN STATE MEDICAID PROGRAMS

FMAP[1]	● CN[2] ◆ Both CN and MN[3] BASIC REQUIRED MEDICAID SERVICES SEE ABOVE		Podiatrists' Services	Optometrists' Services	Chiropractors' Services	Other Practitioners' Services	Private Duty Nursing	Clinic Services	Dental Services	Physical Therapy	Occupational Therapy
71	●	Alabama		●							
50	●	Alaska		●				●			
61		Arizona[4]									
74	◆	Arkansas		◆	◆	◆		◆	◆		
50	◆	California	◆	◆	◆	◆		◆	◆	◆	◆
50	●	Colorado	●	●				●	●		
50	◆	Connecticut	◆	◆	◆	◆	◆	◆	◆	◆	◆
50	●	Delaware	●			●		●	◆		◆
50	◆	D C	◆	◆		◆		◆		◆	
56	●	Florida		●		●			●		
67	●	Georgia	●			●		●			
50	◆	Guam		◆				◆			
50	◆	Hawaii	◆	◆		◆		◆	◆	◆	◆
67	●	Idaho	●	●	●			●		●	
50	◆	Illinois	●	◆	●	●	◆	◆	◆	●	◆
60	●	Indiana	●	●	●		●	●	●	●	●
55	●	Iowa	●	●	●	●		●	●	●	●
51	◆	Kansas	◆	◆	◆	◆	◆	◆	◆	◆	◆
71	◆	Kentucky		◆		◆		◆	◆	◆	◆
64	◆	Louisiana	◆	◆	◆			◆			
71	◆	Maine	◆	◆	◆	●		◆	◆	◆	◆
50	◆	Maryland	◆	◆				◆	◆	◆	
50	◆	Massachusetts	◆	◆		◆	◆	◆	◆	◆	◆
50	◆	Michigan	◆	◆	◆	◆		◆	◆	◆	◆
53	◆	Minnesota	◆	◆	◆	◆	◆	◆	◆	◆	◆
78	●	Mississippi		●				●	●		
61	●	Missouri	●	●	●			●	●	●	●
64	◆	Montana	◆	◆		◆	◆	◆	◆	◆	◆
57	◆	Nebraska	◆	◆	◆	◆	◆	◆	◆	◆	
50	●	Nevada	●	●	●	●	●	●	●	●	●
59	◆	New Hampshire	◆	◆	◆	◆	◆	◆	◆	◆	◆
50	●	New Jersey	●	●	●	●		●	●	●	●
69	●	New Mexico	●	●		●		●	●	●	
50	◆	New York	◆	◆		◆	◆	◆	◆	◆	◆
68	◆	North Carolina	◆	◆	◆			◆	◆		
51	◆	North Dakota	◆	◆	◆		◆	◆	◆	◆	◆
50	◆	N Mariana Islands		◆				◆	◆	◆	
55	●	Ohio	●	●	●	●	●	●	●	●	●
58	◆	Oklahoma	◆						◆		
57	●	Oregon	●	●	●	●	●	●	●	●	●
56	◆	Pennsylvania	◆	◆	◆	◆		◆	●		
50	◆	Puerto Rico				◆		◆	◆	◆	◆
58	◆	Rhode Island	●	◆					◆		
71	●	South Carolina	●		●			●			
69	●	South Dakota			●			●	●	●	
71	◆	Tennessee						◆	●		
54	●	Texas	●	●	●	●					
68	◆	Utah	◆	◆		◆	◆	◆	◆	◆	
69	◆	Vermont	◆	◆	◆	◆		◆			
50	◆	Virgin Islands						◆	◆	◆	◆
57	◆	Virginia	◆	◆				◆	◆	◆	◆
50	◆	Washington	◆	◆	●	◆	◆	◆	●	◆	◆
71	◆	West Virginia	◆	◆	◆	◆	◆	◆		◆	
57	◆	Wisconsin		●	●	◆	◆	◆	●	◆	◆
50	●	Wyoming		●				●		●	
●	20	●	16	17	14	12	4	17	18	12	7
◆	34	◆	24	31	15	21	14	33	29	24	20
	54	Total	40	48	29	33	18	50	47	36	27

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TABLE 5.—OPTIONAL SERVICES IN STATE MEDICAID PROGRAMS—Continued

● CN[2]
♦ Both CN and MN[3]

FMAP[1]	BASIC REQUIRED MEDICAID SERVICES SEE ABOVE		Speech, Hearing, and Language Disorder	Prescribed Drugs	Dentures	Prosthetic Devices	Eyeglasses	Diagnostic Services	Screening Services	Preventive Services	Rehabilitative Services
71	●	Alabama		●		●	●				
50	●	Alaska	●				●				
61		Arizona[4]									
74	♦	Arkansas		♦	♦	♦	♦				
50	♦	California	♦	♦	♦	♦	♦	♦	♦	♦	♦
50	●	Colorado		●			●				
50	♦	Connecticut	♦	♦	♦	♦	♦	♦	♦	♦	♦
50	●	Delaware	♦	●	♦	●		●	♦		
50	♦	D C		♦		♦	♦	♦		♦	♦
56	●	Florida	●	●	●	●	●				
67	●	Georgia		●		●					
50	♦	Guam		♦	♦	♦	●				
50	♦	Hawaii	♦	♦	♦	♦	♦	♦	♦	♦	♦
67	●	Idaho		●							●
50	♦	Illinois	●	♦	♦	♦	♦	♦		♦	♦
60	●	Indiana	●	●	●	●	●	●		●	●
55	●	Iowa	●	●	●	●	●				●
51	♦	Kansas	♦	♦	♦	♦	♦				♦
71	♦	Kentucky	♦	♦		♦		●	●	●	●
64	♦	Louisiana		♦	♦	♦	♦				♦
71	♦	Maine	♦	♦		♦		♦	♦	♦	♦
50	♦	Maryland	♦	♦	♦	♦	♦				
50	♦	Massachusetts	♦	♦	♦	♦	♦	♦	♦	♦	♦
50	♦	Michigan	♦	♦	♦	♦	♦	♦			
53	♦	Minnesota	♦	♦	♦	♦	♦	♦	♦	♦	♦
78	●	Mississippi		●		●	●		●		
61	●	Missouri	●	●	●	●	●				
64	♦	Montana	♦	♦	♦	♦	♦	♦	♦	♦	♦
57	♦	Nebraska	♦	♦	♦	♦	♦				
50	●	Nevada	●	●	●	●	●				
59	♦	New Hampshire	♦	♦		♦	♦	♦	♦	♦	♦
50	●	New Jersey	●	●	●	●	●	●	●	●	●
69	●	New Mexico		●	●	●	●				●
50	♦	New York	♦	♦	♦	♦	♦	♦	♦	♦	♦
68	♦	North Carolina		♦	♦		♦	♦	♦	♦	♦
51	♦	North Dakota	♦	♦	♦	♦	♦	♦	♦	♦	♦
50	♦	N Mariana Islands		♦	♦	♦					
55	●	Ohio	●	●	●	●	●				●
58	♦	Oklahoma		♦		♦					♦
57	●	Oregon	●	●	●	●	●	●		●	●
56	♦	Pennsylvania		●	●	●					
50	♦	Puerto Rico	♦	♦				♦	♦	♦	♦
58	♦	Rhode Island		♦	♦	♦	●				
71	●	South Carolina		●		●					
69	●	South Dakota		●	●	●					
71	♦	Tennessee		♦		●	●				
54	●	Texas		●		●	●				●
68	♦	Utah	♦	♦	♦	♦	♦				
69	♦	Vermont		♦		♦	♦				
50	♦	Virgin Islands	♦	♦	♦	♦	♦				
57	♦	Virginia	♦	♦			♦	♦			
50	♦	Washington	●	♦	♦	♦	♦	●		♦	♦
71	♦	West Virginia	♦	♦	♦	♦	♦				
57	♦	Wisconsin	♦	♦	●	♦	●	♦	♦	♦	♦
50	●	Wyoming				●					●
●	20	●	11	19	12	19	18	6	3	4	10
♦	34	♦	22	33	24	29	24	17	14	16	19
	54	Total	33	52	36	48	42	23	17	20	29

TABLE 5.—OPTIONAL SERVICES IN STATE MEDICAID PROGRAMS—Continued

● CN[1]
+ Both CN and MN[2]

FMAP[1]	BASIC REQUIRED MEDICAID SERVICES SEE ABOVE		Services for Age 65 or Older in TB Institutions: A. Inpatient Hospital Services	Services for Age 65 or Older in TB Institutions: B. SNF Services	Services for Age 65 or Older in TB Institutions: C. ICF Services	Services for Age 65 or Older in Mental Inst.: A. Inpatient Hospital Services	Services for Age 65 or Older in Mental Inst.: B. SNF Services	Services for Age 65 or Older in Mental Inst.: C. ICF Services	Intermediate Care Facility Services	ICF for Mentally Retarded	Inpatient Psychiatric Service for Under Age 22	Christian Science Nurses
71	●	Alabama	●				●	●	●	●	●	
50	●	Alaska				●			●	●	●	
61		Arizona*										
74	+	Arkansas	+	+	+	+	●	●	●	●	+	
50	+	California	+	+	+	+	+	+	+	+	+	+
50	●	Colorado				●	●	●	●	●	●	
50	+	Connecticut				+			+	+	+	
50	●	Delaware				●		●	●	●		
50	+	D C	+			+			+	+	+	
56	●	Florida	●			●			●	●		
67	●	Georgia	●	●	●		●	●	●	●		
50	+	Guam										
50	+	Hawaii							+	+		
67	●	Idaho						●	●	●		
50	+	Illinois	+	+	+	+	+	+	+	+	●	
60	●	Indiana				●			●	●	●	●
55	●	Iowa				●			●	●	●	
51	+	Kansas					+	+	+	+	+	
71	+	Kentucky	+			+	+	+	+	+	+	
64	+	Louisiana	●			●	●	●	●	●	●	
71	+	Maine				+	+	●	+	+	+	+
50	+	Maryland	+			+		+	+	+		
50	+	Massachusetts	+			+	+	+	+	+		+
50	+	Michigan				+	+	+	+	+	+	
53	+	Minnesota	+	+	+	+	+	+	+	+	+	
78	●	Mississippi	●			●			●	●	●	
61	●	Missouri	●			●			●	●		
64	+	Montana				+	+	+	+	+	+	
57	+	Nebraska				+	+	+	+	+	+	
50	●	Nevada				●	●	●	●	●		
59	+	New Hampshire				+		●	●	●		+
50	●	New Jersey				●	●	●	●	●	●	
69	●	New Mexico							●	●		
50	+	New York	+	+	+		+	+	+	+	+	
68	+	North Carolina	+			+		+	+	+	+	
51	+	North Dakota				+			+	+	+	
50	+	N. Mariana Islands										
55	●	Ohio				●	●	●	●	●	●	
58	+	Oklahoma				+			+	+	+	
57	●	Oregon				●			●	●	●	
56	+	Pennsylvania				+	+	+	+	+	+	
50	+	Puerto Rico										
58	+	Rhode Island				+			●	●		
71	●	South Carolina	●			●			●	●	●	
69	●	South Dakota					●	●	●	●		
71	+	Tennessee	+	+	+	+	+	+	+	+	+	
54	●	Texas	●						●	●		
68	+	Utah				+	+	+	+	+	+	
69	+	Vermont				+			+	+	+	
50	+	Virgin Islands										
57	+	Virginia	+			+	+	+	+	+		
50	+	Washington	+	+	+	+	+	+	+	+	+	
71	+	West Virginia							+	+		
57	+	Wisconsin				●			+	+	●	+
50	●	Wyoming							●			
●	20	●	8	1	1	15	9	13	24	23	13	1
+	34	+	13	7	7	24	16	17	26	26	20	5
	54	Total	21	8	8	39	25	30	50	49	33	6

TABLE 5.—OPTIONAL SERVICES IN STATE MEDICAID PROGRAMS—Continued

● CN[2]
♦ Both CN and MN[3]

FMAP[1]	BASIC REQUIRED MEDICAID SERVICES SEE ABOVE		Christian Science Sanitoria	SNF for Under Age 21	Emergency Hospital Services	Personal Care Services	Total Additional Services	
71	●	Alabama		●	●		12	AL
50	●	Alaska		●	●		10	AK
61		Arizona[4]						AZ
74	♦	Arkansas		●	♦	●	21	AR
50	♦	California	♦	♦	♦		30	CA
50	●	Colorado		●	●		14	CO
50	♦	Connecticut	♦	♦			24	CT
50	●	Delaware		●	●		17	DE
50	♦	D C		♦	♦	♦	19	DC
56	●	Florida	●		●		14	FL
67	●	Georgia		●			13	GA
50	♦	Guam					6	GU
50	♦	Hawaii		♦	♦		20	HI
67	●	Idaho		●	●		12	ID
50	♦	Illinois	♦	●	♦		29	IL
60	●	Indiana	●	●	●		24	IN
55	●	Iowa		●			19	IA
51	♦	Kansas		♦	♦	♦	23	KS
71	♦	Kentucky		♦	♦		22	KY
64	♦	Louisiana		●			17	LA
71	♦	Maine	♦	♦	●		25	ME
50	♦	Maryland		♦	♦	♦	18	MD
50	♦	Massachusetts	♦	♦	♦	♦	28	MA
50	♦	Michigan	♦	♦	♦	♦	24	MI
53	♦	Minnesota	♦	♦	♦	♦	31	MN
78	●	Mississippi	●	●	●		15	MS
61	●	Missouri					16	MO
64	♦	Montana		♦	♦	♦	26	MT
57	♦	Nebraska		♦	♦	♦	22	NB
50	●	Nevada		●	●	●	22	NV
59	♦	New Hampshire	♦	♦	♦	♦	26	NH
50	●	New Jersey	●	●	●		26	NJ
69	●	New Mexico		●	●		15	NM
50	♦	New York		♦	♦	♦	26	NY
68	♦	North Carolina		♦			19	NC
51	♦	North Dakota		♦	♦		23	ND
50	♦	N Mariana Islands				♦	8	NMI
55	●	Ohio	●	●	●		24	OH
58	♦	Oklahoma		♦		♦	11	OK
57	●	Oregon	●	●	●	●	25	OR
56	♦	Pennsylvania		♦	♦		17	PA
50	♦	Puerto Rico			♦		12	PR
58	♦	Rhode Island		♦			11	RI
71	●	South Carolina		●	●		12	SC
69	●	South Dakota		●	●	●	14	SD
71	♦	Tennessee	●		●		17	TN
54	●	Texas	●		●	●	14	TX
68	♦	Utah		♦	♦		20	UT
69	♦	Vermont		♦	♦		14	VT
50	♦	Virgin Islands					9	VI
57	♦	Virginia	♦	♦	♦	♦	20	VA
50	♦	Washington		♦	♦		28	WA
71	♦	West Virginia		♦	♦		16	WV
57	♦	Wisconsin	♦	♦	♦	♦	26	WI
50	●	Wyoming		●			7	WY
●	20	●	8	20	18	5		
♦	34	♦	10	26	24	14		
	54	Total	18	46	42	19		

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[1] Federal Medicaid Assistance Percentage (FMAP) Rate of Federal financial participation in a State's Medical Assistance Program under Title XIX of the Social Security Act. Percentages are rounded and effective as of October 1, 1983.

[2] Categorically Needy People receiving federally supported financial assistance.

[3] Medically Needy People who are eligible for medical but not for financial assistance.

[4] Arizona operates a medical assistance program under a Section 1115 Demonstration project.

Reference: The data shown were reported by individual states and compiled by the Office of Intergovernmental Affairs, Health Care Financing Administration, Department of Health and Human Services. October 1, 1983.

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EPSDT is one service category aimed exclusively at children. Under the provision, effective July 1, 1969, States were required to provide preventive health services for children. States were required by law and regulations to cover certain items (such as eyeglasses and hearing aids) regardless of whether such services were generally offered under a State's Medicaid plan. Implementation of the provision was characterized by a number of delays. The effectiveness of the requirements has been difficult to measure since many of the services are classified under other categories, e.g., physicians' services or clinic services.

BENEFIT PAYMENTS

Fiscal year 1983 expenditures

In FY 1983, one-quarter of all Medicaid vendor payments (excluding the territories) were for dependent children under 21 or for adults in AFDC families, as illustrated in table 6. An additional 2 percent was attributed to the "other persons" category.

Table 7 shows that dependent children represented 43.1 percent of recipients but only 11.7 percent of benefit payments in FY83. Conversely, aged, blind, and disabled adults represented only 29.2 percent of recipients but accounted for 72.4 percent of benefit payments. The primary cause of these variations is that aged and disabled persons are more likely to require long-term institutional care.

The distribution of program payments by eligibility category is reflected in the differences in average Medicaid payments by category of recipient. Table 8 shows that in FY 1983, the average benefit expenditure per recipient was $1,617, ranging from a low of $419 for dependent children to $4,021 for disabled recipients. It must be emphasized that these figures represent nationwide expenditures, which differ markedly from State to State.

TABLE 6.—VENDOR PAYMENTS BY CATEGORY OF RECIPIENT, FISCAL YEAR 1983

[Dollars in millions]

	Total	
	Dollars	Percent
Aged	$11,953	37.1
Blind	183	0.6
Disabled	11,177	34.7
AFDC-type children under 21	3,782	11.7
Adults in AFDC families	4,448	13.8
"Other persons"[1]	686	2.1
Total	32,228	100.0

[1] Primarily "Ribicoff children," defiend in text.

Note: Table excludes data from the territories. Totals may not add due to rounding.

Source: Health Care Financing Administration, unpublished tables.

TABLE 7.—COMPARISON OF MEDICAID POPULATION AND EXPENDITURES, FISCAL YEAR 1983

Eligibility category	Percent of Medicaid population [1]	Percent of Medicaid payments
Aged	15.5	37.1
Blind	0.4	0.6
Disabled	13.3	34.7
AFDC-type children under 21	43.1	11.7
Adults in AFDC families	24.5	13.8
"Other persons" [2]	3.2	2.1
Total	100.0	100.0

[1] A beneficiary may be placed in more than one category during the course of a year. The indicated percentages are based on duplicate counts.

[2] Primarily "Ribicoff children," defined in text.

Note: Table excludes data from the territories.

Source: Health Care Financing Administration, unpublished tables.

TABLE 8.—AVERAGE MEDICAID EXPENDITURE PER RECIPIENT BY CATEGORY OF RECIPIENT, FISCAL YEAR 1983

Nationwide average	$1,617
Aged	3,682
Blind	2,401
Disabled	4,021
Children in AFDC families	419
Adults in AFDC families	866
"Other persons" [1]	1,036

[1] Primarily "Ribicoff children," defined in text.

Note: Table excludes data from the territories. These are nationwide averages. Average State expenditures show wide variations.

Source: Health Care Financing Administration, calculations from unpublished data.

Expenditures in Constant Dollars

Per capita Medicaid benefit expenditures for all recipients including those in the territories in FY 1983 constant dollars increased by $489 from $1,016 in 1973 to $1,505 in 1983 (see table 9). Per capita expenditures in 1973 for dependent children under age 21 were $380 in constant dollars. Spending per capita increased to a high constant amount of $454 in 1978, only to decrease to a low constant amount of $376 in 1982. In 1983, that per capita amount was $406, $26 higher than the corresponding 1973 figure. The per capita constant amount of recipients in the "other person" category fluctuated over time, decreasing by $151, from $698 in 1973 to $547 in 1983.

TABLE 9.—MEDICAID EXPENDITURES IN CURRENT AND CONSTANT DOLLAR AMOUNTS [1]

[By selected category of recipient, fiscal years 1973—83]

Fiscal year	Total			Dependent children under age 21			"Other" [2]		
	Amount in current dollars (millions)	Amount in constant dollars (millions)	Per capita amount in constant dollars	Amount in current dollars (millions)	Amount in constant dollars (millions)	Per capita amount in constant dollars	Amount in current dollars (millions)	Amount in constant dollars (millions)	Per capita amount in constant dollars
1973	8,639	19,939	1,016	1,426	3,291	380	452	1,043	698
1974	9,983	21,149	985	1,694	3,589	379	425	900	599
1975	12,242	23,354	1,061	2,186	4,170	434	492	939	521
1976	14,091	25,100	1,100	2,431	4,330	436	542	965	526
1977	16,239	26,904	1,178	2,610	4,324	448	641	1,062	542
1978	17,992	27,842	1,268	2,748	4,252	454	643	995	537
1979	20,472	28,715	1,334	2,884	4,045	444	638	895	518
1980	23,311	28,788	1,332	3,123	3,857	413	596	736	491
1981	27,204	30,247	1,376	3,508	3,900	407	552	614	450
1982	29,399	30,431	1,409	3,473	3,595	376	689	713	497
1983	32,351	32,351	1,505	3,822	3,822	406	725	725	547

[1] Constant dollar amounts are based upon fiscal year 1983 using the Consumer Price Index (CPI) for Urban Consumers (CPI-U). Fiscal years 1973 through 1976 are based upon a July to June fiscal year. After 1976, Federal fiscal years are October to September. The transition quarter—July 1976 to September 1976 has not been incorporated in this table.

[2] "Other" is primarily composed of children not meeting the definition of dependent children; i.e., "Ribicoff children."

Source: Social Security Bulletin, Annual Statistical Supplement, 1983, plus additional calculations prepared by the Congressional Research Service (CRS), Education and Public Welfare Division.

IV. Subsidized Housing [17]

HISTORY

1950s and Early 1960s

Initially, housing assistance took the form of construction of individual public low-rent projects. In the late 1950s and 1960s, dissatisfaction with public housing projects, which were often high-rise dense concentrations of families with social problems, led to programs which gave public housing authorities power to lease units in the existing housing stock, or in newly constructed, privately owned buildings, or to purchase "turnkey" projects built by private developers.

To help families whose incomes were slightly higher than those eligible for public housing, other assistance programs were added which relied upon reducing the financing costs of new construction. Mortgages at below market interest rates were insured, with prior commitment to purchase them by the then governmental Federal National Mortgage Association (FNMA), and to build units for families with incomes below median ("section 221(d)(3)"). Direct loans were made for construction of rental units for the elderly ("section 202").

Assistance to rural households was extended in direct loans through programs administered by the Farmers Home Administration (FmHA), at rates of interest that varied according to the borrower's income and FmHA's borrowing rate.

The effort to develop alternatives to public housing projects also resulted in a rent supplement program, in which the Department of Housing and Urban Development (HUD) paid the difference between the established rent and the family's rent payment of 25 percent of its income, for elderly or handicapped families, those moving from substandard units, or those forced to relocate by governmental action or disaster. Use of these supplements was limited to designated projects build under one of the construction subsidy programs.

1968 Law

The housing legislation of 1968, while reaffirming the national housing goal adopted in 1949, called for subsidized construction of 6 million units over a ten-year period. To minimize the impact of such a program on the budget, the form of subsidy in the major housing assistance programs was shifted from a capital loan to an annual interest payment to a private lender which reduced the effective rate of interest for mortgages to one percent. Both home buyers ("section 235") and developers of rental units ("section 236") were eligible for such interest assisted. Eligibility for home purchase or for residency in an assisted rental project was limited to families with incomes below 135 percent of the maximum income for admittance to public housing in the particular area. Families purchasing houses paid at least 20 percent of their income toward mortgage payments, taxes, and insurance; if renting, they paid at least 25 percent of income. These percentage payments were minimums; a higher payment was necessary if the interest reduction was insufficient to lower rent, or mortgage, tax, and insurance payments, to an amount that could be covered by the 20 or 25 percent figures. Rent payments in public housing were limited to 25 percent of income in susequently adopted "Brooke amendments," and operating subsidies were authorized to replace the lost income to housing projects.

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[17] The following summary description of Federal programs was excerpted from Congressional Research Service (CRS) Issue Brief No. 79058—Housing Assistance to Low- and Moderate-Income Households, by Grace Milgram and CRS Report No. 84-99 EPW—Cash and Non-Cash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY 1981-83, compiled by Vee Burke.

Through these and related programs, production of more than 1.5 million subsidized units was achieved between 1961 and 1972, of which some 700,000 were assisted by either section 235 or section 236 after 1969.

In the early 1970s, however, some of these programs came under attack for being excessive expensive in both initial construction costs and operating expenses, and subject to excessively high rates of default and foreclosure. Supporters claimed that the problems associated with these programs did not require their amendment, but rather their improvement, for example, correcting poor administration, lack of counselling, and illegal activities. The Administration, however, responded to the criticisms by halting all new activity under the major subsidy programs subsequent to January 5, 1973, except for honoring previous commitments. As a consequence of this suspension, activity in production of subsidized housing dropped sharply. Only 45 percent of the 1968 goal of 6 million subsidized units was met. One-third of the rehabilitation goal of one million units was achieved, while 47 percent of the 5 million new units were built.

CURRENT PROGRAMS

Section 8

Assisted house activity was slowly renewed in response to court suits and new legislation, after its virtual cessation because of the 1973 moratorium. The major activity now is conducted in a program known as section 8, established by the House and Community Development Act of 1974.

Eligibility.—Eligible households are those with countable incomes under 80 percent of the median in their area (called "lower income"), adjusted for family size. Countable income is annual gross cash income, less $480 for each child under 18 (or older if disabled or a full-time student), $400 for an elderly family, medical expenses over 3 percent of gross income for elderly family members, and child care expenses necessary for employment or education. Families with assets above $5,000 have included as income either the actual income from those assets or 10 percent of their value, whichever is greater. Eligible tenants may rent from private owners, cooperatives, or public housing agencies who own a section 8 project. Recertification is required annually. Eligibility and rental charges are based on countable family income expected in the 12 months following the date of determination.

In an attempt to target assistance on the most needy, 1981 amendments limited occupancy by "lower income" households to

10 percent of units re-rented after passage of the Housing and Community Development Act of 1981, and to 5 percent of all units subsidized thereafter, thereby requiring that other units be available only to "very low-income" households (i.e., those with countable incomes below 50 percent of the median). The 1983 authorization act raised the 10 percent to 25 percent, although keeping the 5 percent for new developments. According to a 1979 amendment, preference is to be given to families occupying substandard housing or who are involuntarily displaced. 1983 amendments add those paying over 50 percent of their income for rent.

Eligible families may occupy units in (1) existing or moderately rehabilitated housing or (2) new construction or substantially rehabilitated housing. However, since 1983, new commitments of aid for those in new construction or substantially rehabilitated housing have been ended. And, more important, the availability of section 8 assistance is limited by the extent of Federal appropriations.

Benefits.—The Federal Government pays the difference between the "contract rent" and the rent required to be paid by the eligible tenant. The contract rent charged by the owner of section 8 housing must be within limits established by a HUD survey of fair market renets for standard, modest, existing, rehabilitated, or new construction units in each metropolitan area or non-metropolitan county of the Nation, except that HUD can permit up to 20 percent higher rents if necessary.

Until 1982, most eligible tenants paid a rent equal to 25 percent of their countable income, but not less than 15 percent of the family's gross income; for lower income families who joined the program after 1979, the minimum was 20 percent of gross income. However, 1981 amendments established family rent as the higher of 30 percent of countable income or 10 percent of gross income. A third alternative applies to families who receive a cash welfare grant that includes a sum designated for actual rent. Such families must pay that "welfare rent" if it exceeds either of the other two measures. The 1981 law required that new tenants were to pay the higher amount immediately. For existing tenants, the new, higher rents were phased in over a 5-year period.

Federal expenditures for section 8 benefits in FY 1983 average about $2,900 per unit (about $240 a month).

Views about section 8.—The shift to section 8 assistance was made for a number of reasons. For the first time, substantial use could be made of the existing housing stock, with a consequent reduction in overall per-unit subsidy costs from incurred where new construction was the only alternative. It was hoped that use of the existing stock would provide recipients of aid with a greater choice of location and houseing type, since they could not be restricted to specific designated developments. This was seen as a way of not only increasing household satisfaction, but also of promoting racial and income integration as families could move out of concentrated minority-occuppied, low-income area. The higher income the subsidy provided owners could encourage maintenance of the housing stock, which otherwise faced deterioration, and improvement of already deteriorated units could be fostered by allowing for rehabilitation.

Fear was expressed by opponents of this reliance of existing housing that, in places with low vacancy rates, rents would be driven up for all renters, particularly those of lower income who did not receive the subsidy—the availability of which is limited by Federal appropriations—that, in some places there might be an absolute shortage of standard-quality rental units relative to the number of subsidized households, and that even if there were apparently a sufficient number of rental units, vacant units might not match the needs of particular types of households such as large families. As the program has operated, further concern has been expressed that if the acceptable rent is held at a relatively low level, it prevents the dispersion of low-income families out of inner-city areas.

The section 8 subsidy method has been successful in eliminating the gap that previously existed among eligible households, which prevented assistance being given out to those whose incomes were too high for entrance into public housing, but too low to meet basic rent required of residents of "section 236" landlord interest subsidy projects. It has also provided a means of increasing rents received by owners as operating costs rise, thereby eliminating a problem that had caused serious financial problems for many projects subsidized by means of lower mortgage interest.

Operation of section 8.—Because of a number of difficulties, the section 8 program was slow in getting underway. Changes in the economic situation, experience with the program, and amendments to the law which corrected some apparent deficiencies served to make it fully operational. Since its inception (through August 1984), funds have been reserved for 2,231,000 units, of which more than half are in the existing housing stock. Approximately 1,913,000 of these are completed, or, in the case of existing housing (slightly under two-thirds of the total), ready for tenant certification by a local public housing agency. Over a quarter of the existing units and two-thirds of the completed new construction units were designated for the elderly and handicapped. By the end of June 1984, approximately 1,680,000 units were eligible for occupancy, about half by the elderly.

Amendments in 1983 completed the shift away from provisions of new construction under section 8 to use only of the existing stock, except for housing for the elderly and handicapped. Funding for additional households which can be assisted is authorized at a level to add approximately 100,000 units to section 8 and public housing together, but most of these were expected to be units being converted from other HUD assistance programs or receiving additional subsidies because they are in financially troubled projects, rather than newly assisted by any HUD program. Appropriations for fiscal year 1984, however, funded about 125,000, of which about half were previously assisted and about half newly funded or "incremental" units. The fiscal year 1985 appropriation funds approximately 143,000 section 8 units, of which about 93,000 are incremental, with most of the remainder available for a new section 8(o) program of "vouchers" rather than regular section 8 payments to landlords (discussed below).

Conventional public housing

Although section 8 is the program currently adding the most units to the subsidized stock, other programs continue to function. Conventional low-rent public housing operated by local public housing authorities currently houses approximately 1.2 million families and individuals. Current production is at a low level. Reservations for new construction dropped from 68,500 in fiscal year 1978, to 30,800 in fiscal year 1980 and have dropped even further in recent years. Problems in finding acceptable sites, concern about receiving sufficient operating subsidies to cover even currently owned units, and, in some areas, a preference for existing-unit section 8 assistance have all militated against greater production in the program. Only about 7,000 units are funded for fiscal year 1985. A question has also arisen as to how to maintain the low-income nature of the projects approaching 40-year usage, since operating subsidies were authorized only for projects under annual contributions contracts which have a 40-year duration. In the Housing and Community Development Amendments of 1979, Congress authorized continuing payment of the operating subsidy after the expiration of the 40-year period, provided that the project continues to serve low-income tenants. The 1983 amendments restricted development of new projects to situations in which it can be demonstrated that new construction is less expensive than acquisition or rehabilitation.

Low-rent public housing tenant eligibility and benefit rules are essentially the same as those in the section 8 program discussed previously, but include special limitations on the proportion of non-aged, non-disabled individuals that may be served (no more than 30 percent of the units in a jurisdiction).

Public housing outlays, including operating subsidies, averaged about $2,600 per unit in fiscal year 1983, roughly $217 monthly.

Section 236 interest reduction payments

The 1974 Housing and Community Development act provides for housing assistance in the form of payments made to the landlord by HUD to reduce the effective interest rate on a low-income housing development to 1 percent. A basic monthly rental charge is established for each unit on the basis of the costs of operating the project with the debt service requirements of a mortgage bearing a 1-percent interest rate; HUD then makes payments to the landlord to make up the difference.

Eligibility criteria are the same as those for the section 8 programs, except that there is no special limit on the proportion of "lower income" units and there is a limit (15 percent) on the proportion of units available to non-elderly individuals. Tenants are required to pay a basic rent of 30 percent of countable income, but not more than the fair market rent. However, up to 20 percent of tenants who cannot afford this basic rent requirement are to be provided additional help (through rent supplements to landlords) to lower their rental payment to 25 percent of income, and elderly and handicapped tenants paying more than 50 percent of their income for rent can be assisted under section 8 programs.

Section 236 payments (excluding rent supplements) averaged $1,240 per unit in fiscal year 1983, $103 monthly.

Rent supplements

HUD is authorized to make rent supplement payments to owners of private housing rented to poor families; these supplements cannot exceed 70 percent of the basic rent established for the housing unit (a rent sufficient to cover total costs for the unit). After a tenant has paid 30 percent of countable income as rent, and if other subsidies to the landlord are not sufficient to cover basic rent costs, rent supplement payments may be made. Typically, rent supplements are provided as additional subsidies to developments otherwise assisted by HUD, most notably, section 236 projects.

OUTLAYS

Table 10 shows that outlays for Federal housing assistance programs administered by HUD doubled in real terms between 1974 and 1980, rising from $3.9 billion to $7.8 billion (constant 1984 dollars). In the next 3 years they climbed about one-third, to $10.5 billion; but in 1984 they dropped to $10.2 billion.

TABLE 10.—OUTLAYS FOR FEDERAL HOUSING ASSISTANCE PROGRAMS ADMINISTERED BY THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT, 1974–84

[In millions of dollars]

Fiscal year	Total outlays [1]	
	Current dollars	Constant dollars
1974	$1,763	$3,886
1975	2,059	4,089
1976 [2]	3,068	5,650
1977	2,932	5,055
1978	3,768	6,069
1979	4,652	6,791
1980	6,084	7,820
1981	7,473	8,647
1982	8,609	9,275
1983	10,108	10,520
1984	10,203	10,203

[1] Outlays for all HUD-assisted programs, including "section 202" and public housing operating subsidy costs and programs not covered in the discussion in chapter VI of this report of trends in housing assistance for families with children.

[2] Includes the transition quarter, July-September 1976.

Sources: "Trends in Funding and Numbers of Households in HUD-Assisted Housing: Fiscal Years 1974–1984," by Grace Milgram. Congressional Research Service, Dec. 28, 1983. Budget of the U.S. Government, fiscal year 1986 Appendix.

APPENDIX B. SELECTED SUPPLEMENTAL CASH AND NONCASH TRANSFER PROGRAMS FOR POOR CHILDREN[*]

I. INTRODUCTION

Many programs provide income support and services to children and their families other than the basic ones that were discussed in Chapter VI—AFDC, Food Stamps, Medicaid, and subsidized housing.

This appendix briefly describes some of the major supplementary benefit programs,[1] telling whom they aid, and how much they cost. The selected list consists of these 22 programs:

Cash

1. Earned Income Tax Credit (EITC)
2. Supplemental Security Income (SSI)
3. Emergency Assistance for Needy Families with Children (EA)
4. General Assistance (no Federal funds)
5. Veterans' Pensions
6. General Assistance to Indians
7. Assistance to Refugees and to Cuban/Haitian Entrants

Energy

8. Low-Income Home Energy Assistance Program

Child Nutrition

9. School Lunch
10. School Breakfast
11. Summer Food Service
12. Special Supplemental Food Program for Women, Infants, and Children (WIC)
13. Commodity Supplemental Food Program (CFPP)

Foster Care

14. Foster Care for Needy Children (Title IV-E funds)
15. General Foster Care (Title IV-B funds)
16. General Foster Care (Social Services Block Grant)

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[*] Carmen D. Solomon wrote the sections on the Earned Income Tax Credit, Supplemental Security Income, Emergency Assistance, General Assistance to Indians, and Child Support Enforcement. Barbara McClure wrote the section on Veterans' Pensions; Joyce Vialet, Refugee Aid; Kenneth Cahill, Home Energy Aid. Sharon Stephan wrote the sections on Child Nutrition, Foster Care and Day Care.

[1] Public education is a vast system that also provides essential services to the Nation's children, but it was omitted from this study to hold the report to reasonable size. The one educational program included in this Appendix is Headstart, but only its day care provisions are discussed. Headstart aims directly to improve school performance of low-income children.

Day Care

17. Head Start
18. Child Care Food Program
19. Social Services Block Grant
20. Income Tax Credit

Medical Services

21. Maternal and Child Health Services Block Grant

Child Support

22. Child Support Enforcement Program

Omitted from this section are the Job Training Partnership Act and the Targeted Jobs Tax Credit: programs that seek to reduce poverty through jobs and training. They are discussed in appendix C, which presents a history of Federal employment and training programs. (Appendix D, AFDC and Work, discusses the Work Incentive program, the Community Work Experience Program, and other work programs for AFDC recipients.)

II. CASH PROGRAMS

EARNED INCOME TAX CREDIT (EITC)

Recipients: 6.2 million families with an estimated 9-12 million children (FY 82).
Benefits: $1.8 billion (FY 82).

The Earned Income Tax Credit (EITC), which was added to the Internal Revenue Code in 1975, offers an earning supplement of up to $550 annually to married couples who support a child and to single parents who maintain a household for a child, provided their adjusted gross income is below $11,000.

The EITC is the only tax credit that is "refundable." This means that a person does not need to owe any income tax to receive the credit. For those whose income is too low to owe income taxes, or whose tax liability is smaller than the credit, the Internal Revenue Service (IRS) makes a direct payment of the credit.

Basically, two reasons were advanced for enacting the EITC, which evolved from a 1972 proposal for a "work bonus" by Senator Russell Long, Chairman of the Senate Finance Committee. The Finance Committee report on the Tax Reduction Act of 1975 said that the EITC's most significant objective should be "to assist in encouraging people to obtain employment, reducing the unemployment rate and reducing the welfare rolls." In addition, it was thought that the regressive nature of the social security payroll tax should be counterbalanced. Senator Long said that the EITC was needed to provide tax relief to persons who were "too poor to pay income tax, but who still pay social security tax. . ." Representative Al Ullman, Chairman of the House Committee on Ways and Means, said, "Even though we in no way affect or change the social security law, we are in effect rebating to low-income groups below $6,000 most of the payroll tax that they have already paid."

Eligibility

The credit is available to persons who have a child and whose adjusted gross income and earned income are both less than $11,000. Married couples must be eligible for a dependency exemption for a child, and unmarried persons must maintain a household for a child. A dependency exemption is available only if the person provides more than half the support of the child, and a person is considered to maintain a household only if over half the household expenses are provided by that individual. For this purpose, AFDC benefits are considered not to be provided or furnished by the individual. Thus, if more than half of a mother's income is from AFDC, she is ineligible for EITC. There is an earnings threshold at which eligibility starts. For example, a mother with $2,999 of earnings and $3,000 of AFDC would not qualify for EITC benefits, but if she earned $2 more, she would become eligible for an EITC payment equal to $330 (11 percent of $3,000).

Participating families receive EITC benefits in one of three ways: (1) a reduction in income tax liability,[2] (2) a cash payment from the Treasury if the family has no income tax liability, or (3) a combination of reduced taxes and direct payment. Most EITC benefits have been paid in the form of cash benefits rather than an offset to tax liability (see table 1).

Benefit levels

Congress determines the parameters of the EITC. When enacted in 1975, the maximum credit was set at $400 per family and the income ceiling at $8,000. Effective in 1979, these levels were raised to $500 and $10,000 respectively. In 1984 the maximum credit was increased to $550 and the income ceiling to $11,000. Unlike other main features of the income tax, the EITC is not automatically adjusted for price inflation.

The credit equals 11 percent of the first $5,000 of earnings, including net earnings from self-employment, and thus may not exceed $550 per family. The size of the credit is related to a worker's wages, not to the number of children dependent on the wages. Between earnings of $5,000 and $6,500 the EITC equals $550. The credit is gradually phased out at income levels above $6,500 and ends at earnings of $11,000. For families with income between $6,500 and $11,000 the EITC equals $550 minus 12⅔ cents for each dollar of income over $6,500.

Relationship to poverty thresholds

All poor families smaller than five members, and some nonpoor families of this size potentially are eligible for the EITC in 1985. As the poverty thresholds rise, fewer nonpoor families qualify for the EITC.

The EITC maximun credit of $550 equals 9.9 percent of the 1984 poverty threshold for a two-person non-aged family; 6.6 percent for a three-person family, and 5.2 percent for a four-person family. A person with three dependents who earned the minimum wage for full-time year-around work ($6,968 in wages, 66 percent of the four-person poverty threshold) would be eligible for an EITC of $493, which would lift his income to 70 percent of poverty. For a corresponding three-person family the same minimum wage earnings would equal 85 percent of the poverty threshold and the $493 EITC would lift income to 90 percent of poverty.

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[2] The law permits advance payments of the EITC by negative withholding from pay checks, but very few workers receive payment this way.

The EITC income limit of $11,000 represents 158 percent of the 1983 poverty threshold for two, 133 percent for three, 104 percent for four, and 88 percent for five. Unlike other cash welfare programs, the EITC is, in part, inversely related to need. The more a family earns (up to $5,000), the more welfare aid it receives. Families with the lowest earnings receive a very small EITC payment.

Relationship to other benefit programs

Rules of AFDC and food stamps require that EITC payments be treated as earned income when received. The Deficit Reduction Act of 1984 (P.L. 98-369) repealed a requirement that welfare agencies reduce AFDC benefits to take account of EITC payments that recipients with earnings were considered eligible to receive on an advance basis, whether or not they actually did so.

Comparison to other programs

Like other cash welfare programs, the EITC is limited to certain categories of persons. To be eligible, families must have earnings and a dependent child. Unlike other welfare programs, the EITC pays no more to a large family than to a small one with the same earnings, and it disregards a family's resources. Unlike AFDC, the EITC is federally administered (by the Internal Revenue Service), has Federal eligibility rules, and pays standard benefits. The rules of EITC, like those of AFDC, have been criticized for providing a financial incentive to break up a family. Under the EITC program, a married couple, each earning $5,500, with two children would be able to obtain an additional $1,100 a year by dividing the family. The separate units would be entitled to a credit of $550 each. If the family remained together, they would receive no credit at all. A married couple must file a joint tax return for the EITC, and their joint earnings would make them ineligible.

Trends

As table 1 shows, EITC benefits peaked in 1979 at $2.1 billion, paid to 7.1 million families. Total benefits declined steadily in the next 5 years, a period when the maximum credit was frozen at $500 and the income ceiling was frozen at $10,000. Adjusted for inflation, total benefits declined 44 percent from 1975, first year of the program, and 54 percent from 1979, peak year.

TABLE 1.—TOTAL AMOUNT OF EITC, NUMBER OF FAMILIES RECEIVING THE CREDIT AND BUDGET OUTLAYS FOR CALENDAR YEARS 1975 THROUGH 1985

Calendar year to which credit applies	Total amount of EITC (millions)		Number of families who received EITC (thousands)	"Refunded" portion of credit [1] (millions)	Average EITC per family	
	Current dollars	Constant 1984 dollars			Current dollars	Constant 1984 dollars
1975	$1,250	$2,412	$6,215	$900	$201	$388
1976	1,295	2,363	6,473	890	200	365
1977	1,127	1,931	5,627	880	200	343
1978	1,048	1,668	5,192	801	202	322
1979	2,052	2,936	7,135	1,395	288	412
1980	1,986	2,503	6,954	1,370	286	360
1981	1,912	2,184	6,717	1,278	285	326
1982	1,764	1,898	6,357	1,217	277	298
1983 [2]	1,466	1,528	NA	1,110	NA	NA
1984 [2]	1,349	1,349	NA	1,024	NA	NA
1985 [2]	1,246	NA	NA	988	NA	NA

[1] This is the portion of the credit that exceeds tax liability, and it is treated as a budget outlay. The rest of the credit is classified as a "tax expenditure." All these credits were paid in the following year until 1979, when advance payments of the credit were permitted, by addition to the worker's paycheck.

[2] Projections. NA—not available.

SUPPLEMENTAL SECURITY INCOME (SSI)

Child Recipients: 232,800 (1983 estimated average monthly number).

Benefits to Children: $760 million (1983 estimate).

The program of Supplemental Security Income (SSI) provides a minimum cash guarantee to eligible persons, including needy disabled or blind children. Started in 1974 and established by the 1972 amendments to the Social Security Act (P.L. 92-603), SSI offers monthly cash payments on nationally uniform terms to needy persons at least 65 years old and to blind or disabled persons of any age in the 50 States, the District of Columbia, and the Northern Mariana Islands. SSI benefits are paid with general revenue from the U.S. Treasury, but administered by the Social Security Administration.

Eligibility

To qualify for SSI, a child must be blind or have a physical or mental impairment of severity comparable to one that would prevent an adult from working and is expected to last at least 12 months or to result in death. The countable income ceiling for SSI in 1985 is $325 monthly per person, and the countable resource limit is $1,600. If a child is under 18, unmarried, and living at home, some of his parents' income and assets, if "excess" are treated as his; but if the child is an unmarried student between the age of 18 and 22, only his own income and assets are considered. Further, earnings of disabled or blind students under 22 years old are not counted as available income unless they exceed $400 a month or $1,620 a year.

Benefit levels

In calendar year 1985 the Federal income floor is $325 monthly for single persons. Half the States plus the District of Columbia pay supplementary benefits to SSI recipients who have independent living arrangements. These State-funded supplements range from $1.70 monthly in Oregon to $261 in Alaska.

As noted earlier, a disabled student under age 22 is permitted to add up to $400 in monthly earnings ($1,620 per year) to a full SSI payment; such earnings are not counted as income. Furthermore, his benefits are reduced by only a fraction of any higher earnings.

Relationship to poverty thresholds

The SSI guarantee is not directly related to poverty thresholds, but like those thresholds, it is linked to the Consumer Price Index (CPI), and, hence, it generally rises at about the same rate.[3] Cost-of-living adjustments (COLAs) are provided annually in January and equal the percentage that is granted to social security benefits (which reflects a rise in the CPI).

The basic Federal SSI guarantee amounts to $3,900 per year. This represents 72 percent of the 1984 poverty threshold for a nonaged single individual; however, this yardstick would be inappropriate for judging the poverty of an SSI child unless he were a student no longer at home. The relevant poverty threshold for a child at home would depend upon the family size and would have to take into account the income of other family members.

Relationship to other benefit programs

SSI and AFDC are mutually exclusive programs. A person cannot participate in both. However, a family may contain recipients of both programs. Thus, a needy mother with one healthy and one disabled child may receive ADFC for herself and the first child, while her disabled child receives SSI. Similarly, a needy disabled mother may receive SSI for herself (it generally is much more generous than and AFDC caretaker grant) and AFDC for her children. Such a family would constitute two separate "assistance" units, each with its own income and benefit calculations. Neither program would count the benefits of the other.

In the Federal-State cash welfare programs for the blind and disabled that preceded SSI, children generally were ineligible. Most States limited disability welfare grants to persons at least 18 years old and covered needy disabled children under AFDC on the same terms as healthy children.

When the House Committee on Ways and Means in 1972 reported the SSI legislation, H.R. 1, it recommended that the SSI program include disabled children under age 18, and the Nixon Administration supported this provision. However, the Finance Committee deleted the provision, giving this explanation in its report:

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[3] Timing and measuring period differences (plus rounding rules for benefits account for differences in their rates of growth. Further, in 1983 Congress delayed the SSI COLA, substituting a more generous ad hoc benefit boost.

> The House justified its inclusion of disabled children under age 18 under aid to the disabled, if it is to their advantage, rather than under the program for families with children, on the grounds that their needs are often greater than those of nondisabled children. The needs of disabled children, however, are generally greater only in the area of health care expenses. In all but the two States that do not have medicaid programs, children now eligible for cash assistance are covered under existing State medical assistance programs. Disabled children's needs for food, clothing, and shelter are usually no greater than the needs of nondisabled children.[4]

The conference committee restored the House provisions and it became law.

Congressional debate over including children in the SSI program mainly focused on whether or not disabled children have greater financial needs than other low-income children. A 1978 survey of SSI children[5] found that there were some extra costs involved in their care, chiefly for transportation, clothes, and medical care. Other expenses mentioned were school, babysitting and special equipment. In all the extra expenses totaled about $28 monthly. At the time, the average monthly SSI payment for a disabled or blind child was $171.72, more than double the average monthly payment of $84.60 for an AFDC recipient.

By 1983 the spread between SSI and AFDC average payments widened. The average monthly SSI payment for a disabled or blind child then was $280.96, more than 2.6 times the average monthly payment of $107.20 for an AFDC child.

The gap between SSI and AFDC payments per child can be illustrated by considering two families, Family A and Family B, living in the median AFDC State (ranked by State benefit levels) in January 1985. Assume that both families consist of a mother and two children and that neither has any private income, but that Family B has one disabled child. Family A would receive $327 a month, $3,924 yearly, from AFDC. Family B would receive a two-person AFDC benefit of $272 plus the maximum SSI payment of $325 for the disabled child, a total monthly income of $597, or 7,164 annually. Family A would have income equal to 47 percent of the poverty threshold; Family B would have income equal to 87 percent of the threshold. Both families would be eligible for Medicaid.

SSI law provides different treatment for child support payments from an absent parent than does AFDC law. One-third of any payment for the disabled SSI child's support received from an absent parent is not counted as income and thus, in effect, is added to the full SSI benefit. In contrast, AFDC law requires the parent to give any child support rights to the State, which then seeks to enforce collection (and, under 1984 law, must pass through up to $50 monthly of its collection to the custodial parent).

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[4] U.S. Congress. Senate. The Supplemental Security Income Program. Committee on Finance. April 1977. 95th Congress, 1st Session. U.S. Govt. Print. Off. 1977. p. 125.

[5] Survey of Disabled Children Under SSI Program. Social Security Bulletin. Vol. 43, No. 1. January 1980.

Trends

The share of children in the SSI population has doubled since 1975, rising from 3 to 6 percent. As table 2 shows, the number of child recipients climbed from 128,175 in December 1975 to 236,380 in December 1983, an increase of 84 percent. At the same time the total SSI enrollment fell 10 percent, from 4.3 million to 3.9 million.

TABLE 2.—NUMBER OF BLIND AND DISABLED CHILDREN RECEIVING FEDERALLY ADMINISTERED PAYMENTS AND AVERAGE MONTHLY BENEFIT AMOUNT, 1974–83

	Number of recipients		Average monthly amount	
	All persons	Blind and disabled children	All persons	Blind and disabled children
Jan. 1974	3,215,632	6,800		
Dec. 1974	3,996,064	70,900	[1] $114.47	$109.15
Dec. 1975	4,314,275	128,175	114.39	141.09
Dec. 1976	4,235,939	153,128	119.70	154.24
Dec. 1977	4,237,692	175,214	124.52	170.03
Dec. 1978	4,216,925	197,499	129.61	171.72
Dec. 1979	4,149,575	212,088	155.65	193.26
Dec. 1980	4,142,017	228,588	167.77	219.08
Dec. 1981	4,018,875	230,094	182.73	240.84
Dec. 1982	3,857,590	229,151	195.83	263.22
Dec. 1983	3,901,497	236,380	211.68	280.96

[1] Oct.-Dec. 1974.

EMERGENCY ASSISTANCE TO NEEDY FAMILIES WITH DEPENDENT CHILDREN (EA)

Recipients: 30,000 families with children (1983 monthly average).

Benefits: $100 million (1983).

The Social Security Act permits States to give emergency assistance for no more than 30 days per calendar year to AFDC families and other needy families with children, including migrant families, to avoid destitution of the children or to provide living arrangements for them. Aid may be given in the form of money payments, payments in-kind, medical care, or remedial care. The Federal Government pays half the cost of EA benefits and administration. As of October 1, 1983, 27 jurisdictions operated EA programs.

Eligibility

States define eligible emergencies. According to State plans for EA, the four classes of emergencies most commonly qualifying for aid in late 1983 were natural disasters; unspecified crises threatening family or living arrangements; homelessness; and eviction, potential eviction, or foreclosure. Other qualifying causes of need specified by at least three States were illness or injury, civil disorders or crimes of violence, lose of employment or strike, death, utility shutoff or fuel shortage, loss of heating energy supply or equipment, appliance failure, child safety, man-made disasters (peacetime radiological incident, chemical disaster).

Local welfare officials have great discretion in dealing with individual cases.

Benefit levels

In September 1984, $10.8 million in EA benefits were paid to 36,500 families, yielding an average benefit of $295 per family. The number of families aided was down 48 percent from the September 1983 count, but up 34 percent from the September 1982 count.

Relationship to other benefit programs

The EA program was established to supplement AFDC cash benefits for one month only in cases of emergencies and to give temporary emergency aid to non-AFDC families with children. Thus, payments cause no reduction in AFDC benefits. However, the food stamp program reduces benefits to take account of EA cash aid (at the rate of 30 cents in food stamps per dollar of countable cash).

Trends

As table 3 shows, the average monthly number of families aided by EA peaked in 1981 at 49,100, then declined sharply (45 percent) in 1982. The Federal Government made no change in EA program rules in this period. Some States said that in 1982 they increased their use of Low-Income Home Energy Assistance funds, which are 100 percent federally funded, for emergency aid and accordingly, decreased their use of EA funds, which States must match, dollar for dollar.

TABLE 3.—EMERGENCY ASSISTANCE: AVERAGE MONTHLY NUMBER OF RECIPIENTS, TOTAL AMOUNT OF CASH PAYMENTS, AND AVERAGE MONTHLY PAYMENT, 1969–83 [1]

Year	Average monthly number of families (in thousands)	Total assistance payments during year (in thousands)		Average monthly payment per family	
		Current dollars	Constant 1983 dollars	Current dollars	Constant 1983 dollars
1969	7.5	6,699	$18,201	$117.23	$318.54
1970	7.5	11,396	29,239	126.14	323.64
1971	11.1	19,843	48,834	148.54	365.56
1972	19.9	44,180	105,248	184.91	440.50
1973	18.8	39,265	88,062	174.05	390.35
1974	31.3	64,031	129,333	170.38	344.14
1975	38.3	77,516	143,470	168.85	312.51
1976	27.5	55,673	97,451	168.43	294.82
1977	32.8	66,132	108,707	168.05	276.24
1978	34.5	80,919	123,564	195.24	298.13
1979	35.7	84,043	115,341	195.92	268.88
1980	48.6	113,238	136,912	194.29	234.91
1981	49.1	123,467	135,284	209.51	229.56
1982	27.3	102,344	105,636	278.54	287.50
1983	30.0	100,400	100,400	280.34	280.34

[1] 1969–82 data are derived from Social Security Bulletin, Annual Statistical Supplement, 1983, p. 248. 1983 data compiled from Monthly Benefit Statistics, published by the Social Security Administration, Office of Research Statistics and International Policy (in the Office of Policy).

GENERAL ASSISTANCE (GA) (NON-MEDICAL COMPONENT)

Recipients: 1.3 million (FY 1983 estimate). Number with children unknown.
Benefits: $2.1 billion (FY 1983 preliminary estimate).

General Assistance (GA) is the usual name given to State and local programs that help persons who are not eligible for AFDC, SSI, or EA. No Federal funds are provided for GA programs. Most States have had GA programs since the 1930s.

As of late 1982, 25 jurisdictions, including the District of Columbia and the three outlying areas, operated statewide GA programs, fully funded by the State. Nineteen States provided no funds for local relief programs, although four of these States required their localities to offer GA. One State (West Virginia) did not have a GA program. The remaining nine States shared GA costs with localities.

Eligibility

To receive GA, a person must be considered to be in financial need and must live where such aid is offered. Definitions of need vary among States and even within States. Most jurisdictions generally provide basic aid in the form of cash, some use combinations of cash and vendor payments, and some use vouchers. Many States also offer medical assistance to GA recipients.

Benefit levels

GA benefit levels vary among States and often within them. They range from small one-time emergency payments to regular payments similar to those of AFDC or SSI. For example, California's maximum monthly payment for an individual, which varies by county, ranged in late 1982 from a low of $40 to a high of $250. The range in New York was from $177 to $299, with the difference reflecting variations in area shelter maximums.[6]

As of late 1982, 20 jurisdictions reported that most of the GA cash assistance recipients were single adults. Four States (Alaska, Nebraska, North Dakota and Oklahoma) reported that most of their GA recipients were intact families with children.

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[6] Data in the text are from the U.S. Library of Congress. Congressional Research Service. Cash and Non-Cash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, fiscal year 1981-83 [by] Vee Burke. June 18, 1984. Report No. 84-99 EPW. pp. 64-67 and p. 183.

Relationship to other benefit programs

In a sense, the GA program is the "gap-filling" welfare program. It helps some of the needy who are not eligible for the federally aided cash programs of AFDC or SSI because they are not aged, disabled, or children (and their needy caretakers) in one-parent families or in two-parent unemployed families. Some States use GA to finance more liberal aid to two-parent families with children than Federal AFDC law allows. For example, California funds cash payments to unemployed-parent families without a relatively long previous work history.

Trends

Table 4 indicates that GA cash payments have grown steadily from $1.2 billion in 1978 to an estimated $2.1 billion in 1983, a rise of 75 percent. Adjusted for price inflation, the rise amounted to 16 percent. The number of GA recipients increased from 793,000 in 1978 to an estimated 1,275,000 in 1983, a rise of 60 percent.

TABLE 4.—GENERAL ASSISTANCE—RECIPIENTS OF CASH PAYMENTS AND TOTAL AMOUNT, 1936–83[1]

Year	Average monthly number (thousands)		Total current dollars (millions)	Total constant 1983 dollars (millions)	Average per—	
	Cases	Recipients			Case	Recipient
1936	(2)	[3]4,545	$437	$3,117	(2)	[3]$8.00
1940	1,410	[3]3,618	405	2,855	$23.93	[3]8.30
1945	244	[3]507	88	483	29.70	[3]16.55
1950	523	[3]866	298	1,225	47.55	[3]22.25
1955	326	785	214	790	54.80	22.74
1960	390	1,071	322	1,077	68.82	25.10
1961	433	1,182	356	1,176	68.57	25.11
1962	360	902	293	956	67.81	27.03
1963	349	861	280	902	66.82	27.07
1964	341	782	273	868	66.61	29.07
1965	324	703	259	812	66.69	30.72
1966	297	636	264	803	74.06	34.60
1967	326	713	326	965	83.38	38.07
1968	370	789	421	1,197	94.79	44.51
1969	403	817	472	1,273	97.59	48.15
1970	477	957	618	1,574	107.96	53.82
1971	562	1,009	761	1,857	112.79	62.82
1972	550	889	740	1,750	112.22	69.44
1973	504	746	689	1,532	113.89	76.87
1974	522	758	825	1,654	131.78	90.70
1975	667	964	1,138	2,090	142.24	98.40
1976	685	934	1,228	2,132	149.27	109.56
1977	675	861	1,238	2,018	152.73	119.74
1978	640	793	1,205	1,826	156.96	126.62

TABLE 4.—GENERAL ASSISTANCE—RECIPIENTS OF CASH PAYMENTS AND TOTAL AMOUNT, 1936–83[1]—Continued

Year	Average monthly number (thousands)		Total current dollars (millions)	Total constant 1983 dollars (millions)	Average per—	
	Cases	Recipients			Case	Recipient
1979	647	796	1,231	1,675	158.49	128.84
1980	756	945	1,442	1,730	158.59	127.18
1981[4]	826	1,006	1,731	1,925	174.64	143.39
1982[4]	894	1,089	1,859	1,924	173.28	142.26
1983[4]	1,040	1,275	2,110	2,110	169.07	137.91

[1] Data partly estimated. Number of jurisdictions reporting: 1960–61, 53; 1962–63, 52; 1964–67, 51; 1968, 48; 1969, 47; 1970, 45; 1971–72, 47; 1973–75, 45; 1976, 44; 1977–78, 42; 1979, 43; 1980–82, 41.

[2] Data not available.

[3] As of December of each year.

[4] Data for these 3 years apply to fiscal year and are from CRS Report 84–99 (cited in footnote 6).

Source of 1936–80 data: Social Security Bulletin, Annual Statistical Supplement, 1983, p. 255.

PENSIONS FOR NEEDY VETERANS, THEIR DEPENDENTS, AND SURVIVORS

Recipients: 2.3 million (FY 1983). Number of children not readily available.

Benefits: $3.9 billion (FY 1983).

The United States has provided pension benefits to non-service-connected disabled or aged veterans of every major conflict since the Revolutionary War. The rationale for veterans' pensions has been to prevent veterans with wartime service and their dependents or survivors from having to live in need. This separate system of income support for needy veterans has continued despite the later establishment (in 1935) of federally aided public assistance programs for the aged or disabled and nearly universal social security coverage. Pension benefits are enlarged for veterans with dependent children and/or spouses. They are payable to low-income surviving spouses and children of wartime veterans regardless of age or disability status. The Federal Government pays the entire cost of veterans' pensions.

Eligibility

Veterans qualify for pensions provided they served honorably for at least 90 days, including at least 1 day of wartime service; they are totally and permanently disabled for reasons not related to their military service;[7] and have income below prescribed limits. At age 65 veterans are considered to be disabled, regardless of physical conditions. Survivors of veterans who died from non-service causes also are eligible for pensions if they meet the income test.

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[7] Veterans disabled because of military service are eligible for compensation payments, for which there is no income test.

Benefit levels

In calendar year 1985, the maximum pension to a veteran with no dependents is $5,709; for a veteran with one dependent, $7,478; for one with two dependents, $8,446.

However, a veteran's widow(er) with a child receives a maximum of only $5,011, one-third less than a veteran with a child.

The maximum benefit schedule for 1985 is as follows:

Family size[1]	Veteran	Widow(er)
1	$5,709	$3,825
2	7,478	5,011
3	8,446	5,979
4	9,414	6,947
5[2]	10,382	7,915

[1] This column refers to the veteran plus dependents, and to the widow(er) plus children.
[2] For each additional dependent, add $968 for 1985.

Virtually all private income of a veteran and his family, including social security benefits and adult earnings, is counted as available and reduces the pension on a dollar-for-dollar basis. Excluded from countable income, however, are earnings of a child that are below the child's Federal income tax threshold ($3,430 in 1985) amounts paid by a child for postsecondary education or vocational rehabilitation training expenses, and cash welfare aid.

Relationship to poverty thresholds

The schedule of maximum veteran's pensions is not directly related to poverty thresholds; but, like those thresholds, it is linked to the Consumer Price Index (CPI), and, hence, it generally rises at about the same rate.[8] Cost-of-living adjustments (COLAs) are provided annually in January and equal the percentage that is granted to social security benefits (which reflects a rise in the CPI).

The veterans' pension schedule guarantees a 1985 income above the poverty level for veterans with no more than two dependents. For widows and widowers, and for veterans with three or more dependents, the program's maximum benefits are below the poverty threshold.

Relationship to other benefit programs

The veterans' pension guarantee for a single veteran exceeds the basic Federal SSI guarantee by 46 percent. However, some States supplement SSI to a level above the veteran's pension amount, and, thus, some veterans may receive an SSI supplement to their pension.

Trends

As table 5 shows, recipient numbers peaked in 1978, and in 1983 were 35 percent below that peak level. Outlays rose 35 percent from 1976 to 1983. Adjusted for price inflation, they fell 24 percent.

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[8] Timing and measuring period differences account for differences in their rates of growth.

TABLE 5.—PENSIONS FOR NEEDY VETERANS, THEIR DEPENDENTS, AND SURVIVORS: FEDERAL EXPENDITURES AND NUMBER OF RECIPIENTS, FISCAL YEARS 1976–83

Fiscal year	Expenditures (thousands)		Recipients (thousands)
	Current dollars	Constant 1983 dollars	
1976	$2,880	$5,130	3,567
1977	3,127	5,181	3,564
1978	3,258	5,042	3,595
1979	3,525	4,940	3,380
1980	3,585	4,427	3,076
1981	3,755	4,175	2,802
1982	3,879	4,015	2,505
1983	3,894	3,894	2,311

Source: Congressional Research Service.

GENERAL ASSISTANCE TO INDIANS [9]

Recipients: 63,900 (FY 83 monthly average).

Benefits: $56.9 million (FY 83).

General Assistance to Indians is 100 percent federally funded and is operated by the Bureau of Indian Affairs.

Eligibility

In order to qualify a person must be an Indian or an Alaskan Native. Recipients must live in Alaska or Oklahoma or on (or near) an Indian reservation in one of 14 other States. Persons must be considered needy according to State standards, and they cannot be enrolled in the AFDC or SSI programs. However, they may receive GA to Indians while their applications are pending for AFDC or SSI. They must accept available employment that they are "able and qualified" to perform.

Benefit levels

Since 1944 the Bureau of Indian Affairs has set maximum payments of this program equal to 100 percent of the standard of needy established by the relevant State for the same size family enrolled in AFDC. This has been the policy even in States that failed to pay the full need standard to their AFDC families. In six of the 16 States that provide GA to Indians, the State does not pay its full need standard to AFDC recipients.

Congress in December 1982 directed BIA to bring payments of the program of GA to Indians "into conformance" with AFDC payments in those States where the need standard exceeded actual benefits.[10] Congress acted after some States increased their standards of need, but not actual payments levels, in apparent response to a new law (P.L. 97-35) that barred AFDC to families whose gross income exceeded 150 percent of their State need standard. (Many States paid AFDC families less than full "need" before the 1981 law, also.)

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[9] The description is derived from the U.S. Library of Congress. Congressional Research Service. Cash and Non-Cash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY 1981-83 [by] Vee Burke. June 18, 1984. Report No. 84-99 EPW. pp. 77-79.

In January 1984 BIA proposed regulations to implement the congressional directive that GA for Indians not exceed maximum AFDC benefit levels. The proposed rules would reduce benefits in Colorado, Idaho, Mississippi, Montana, Nevada, and North Carolina. The sharpest cut would come in Mississippi, where the AFDC need standard ($286) is almost triple the AFDC maximum benefit ($96) for a family of three persons.[11]

The proposed regulations would permit recipients in the six States where AFDC benefits are below need standards to add to their GA cash payment earnings or other income, as long as it did not exceed the gap between need standard and actual payment level.

The October 1984 maximum payments of GA for Indians still equalled State AFDC standards of need. For families of three persons they ranged from $223 in Arizona to $554 in Idaho and to $696 in Alaska.

Trends

Table 6 shows that the number of recipients fluctuated over the last 8 years, from a low of 55,600 in 1981 to a peak of 63,900 in 1983.

Expenditures rose 16 percent from 1976 to 1983. Adjusted for price inflation, expenditures declined 35 percent.

TABLE 6.—GENERAL ASSISTANCE TO INDIANS: EXPENDITURES AND RECIPIENTS, FISCAL YEARS 1976-83

Fiscal year	Expenditures (millions)		Recipients (thousands)
	Current dollars	Constant 1983 dollars	
1976	49.0	87.3	59.0
1977	52.0	86.2	61.5
1978	50.2	77.7	61.5
1979	51.1	71.7	61.5
1980	53.0	65.5	57.8
1981	52.9	58.8	55.6
1982	56.1	58.1	62.5
1983	56.9	56.9	63.9

Source: Congressional Research Service reports in series on Cash and Non-Cash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data.

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[10] Statement of managers. Conference report on H.R. 7356. House Report 97-978. December 17, 1982.

[11] The initial proposed regulation, issued January 11, 1984 (Federal Register, p. 1331-2), provided a floor level of protection, namely, a maximum benefit equal to one-third of the national poverty threshold; but this was withdrawn in a January 19 revision (Federal Register, p. 2267). The original proposal would have provided in Indian family of three persons a guarantee of $221, one-third of the 1983 poverty threshold. This compares with actual AFDC maximum, as of January 1, 1984, of $96 in Mississippi and $202 in North Carolina. A BIA official said the original proposal was disapproved by the Office of Management and Budget (OMB) and had been published in error.

CASH ASSISTANCE TO REFUGEES AND CUBAN/HAITIAN ENTRANTS

Recipients: 170,000 (Sept. 1983). Number of children not readily available.

Benefits: $241.4 million (FY 1983).

The Federal refugee assistance program reimburses States 100 percent for the non-Federal share of AFDC payments made to refugees and entrants, and for any State supplementary payments to them under SSI. It also provides "refugee cash assistance" to needy refugees and entrants who are categorically ineligible for AFDC or SSI.

Eligibility

In order to qualify for refugee assistance a person must (a) have been admitted to the United States as a refugee under provisions of the Immigration and Nationality Act, or (b) be a Cuban or Haitian paroled into the United States between April 20 and October 10, 1980, and designated "Cuban or Haitian entrant," or (c) be a Cuban or Haitian national who arrived in the United States after October 10, 1980, who has a pending application for asylum or is subject to exclusion or deportation, and against whom a final order of deportation has not been issued.[12]

If a needy refugee or Cuban or Haitian entrant is aged, blind, or disabled, he or she is eligible for SSI payments on the same basis as citizens or permanent resident aliens. Refugees or entrants who meet the income and assets tests prescribed by their State for AFDC, as well as the categorical requirements of the State's AFDC program, are eligible for AFDC benefits. Those who meet the State's income and assets tests but who are not categorically eligible for AFDC or SSI qualify for "refugee cash assistance." (For example, a single refugee or childless or employed couple could receive refugee cash assistance if considered needy by State AFDC standards.)

Effective April 1, 1981, only refugees or entrants in the United States three years or less qualify for cash assistance reimbursements. Effective April 1, 1982, the special refugee cash assistance made available to those refugees or entrants who are categorically ineligible for AFDC or SSI ends 18 months after the individual's entry into the United States. For the next 18 months, States may be reimbursed 100 percent by the refugee program for any cash aid made available to these refugees and entrants through a State or local general assistance program.

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[12] This program description is drawn from U.S. Library of Congress. Congressional Research Service. Cash and Non-Cash Benefits For Persons With Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY 1981-83 [by] Vee Burke. June 18, 1984. Report No. 84-99 EPW. p. 71-72.

Benefit levels

Benefit levels for refugees and entrants who qualify for AFDC or SSI are the levels established for these programs. "Refugee cash assistance" payments are based on the State's AFDC payment to a family unit of the same size.

Trends

Expenditures and recipient numbers under this program peaked in 1981 as table 7 shows. Between 1981 and 1983 the number of recipients fell by more than 50 percent.

TABLE 7.—CASH ASSISTANCE TO REFUGEES AND CUBAN/HAITIAN ENTRANTS

Fiscal year	Expenditures (millions)		Recipients (thousands)[1]
	Current dollars	Constant 1983 dollars	
1979[2]	71.6	100.4	88
1980[2]	198.3	244.9	184
1981	377.5	419.7	360
1982	326.4	337.9	252
1983	245.8	245.8	170

[1] Estimate.

[2] Data refer to a predecessor refugee program.

Source: CRS report in Series on Cash and Non-Cash Benefits for Persons of Limited Income.

III. ENERGY AID

LOW-INCOME HOME ENERGY ASSISTANCE

Recipients (heating aid only): 6.5 million households (FY84). From 2.2 to 3.2 million estimated to include children.[13]

Total benefits: $1.9 billion (FY84).

The 100 percent federally funded Low-Income Home Energy Assistance Program (LIHEAP) helps low-income households cope with the cost of residential energy. The program evolved from a series of crisis-oriented programs in the late 1970s, that cost about $200 million a year, and now offers general assistance with residential energy costs at an annual cost of about $2 billion. States design and administer the program within Federal guidelines. It is financed by grants authorized in title XXVI of the Omnibus Budget Reconciliation Act of 1981, as amended. For fiscal years 1984 and 1985, Congress appropriated $2,075 and $2,100 million, respectively.

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[13] An additional 2 million households received cooling, weatherization, or energy-related emergency assistance. Since households may receive more than one type of assistance, an unduplicated total count of households assisted is not available.

Under Federal law, States may use funds to pay home heating and cooling costs, weatherize homes, and provide energy-related emergency assistance. Typically, States provide heating or cooling cost assistance through direct cash payments to households, energy vouchers, two-party checks (checks must be signed by both the beneficiary and the energy supplier), or a combination of these methods. States help weatherize homes by buying materials, paying for installation, or both. The forms of emergency assistance vary considerably.

Expenditures and recipient data for the FY 1984 program are as follows:

Types of assistance	Expenditures (millions)	Recipient households (thousands)
Heating	$1,400	6,500
Cooling	33	500
Weatherization	202	367
Energy-related emergency assistance	232	1,100

Source: Department of Health and Human Resources, Office of Family Assistance, Office of Energy Assistance, July, 1984 Survey of State energy assistance offices.

Relationship to poverty status

LIHEAP's relationship to the poverty status of families is unclear. Congress designed LIHEAP to help low-income households maintain a standard of living in the face of escalating energy costs, rather than to help raise their standard of living. Reducing poverty was not an explicit goal of the program. The Census Bureau does not count energy assistance payments as part of family money income, so LIHEAP has no effect on the official count of poverty. Energy assistance payments have not been counted in any of the alternate measures of poverty published by the Bureau. Also, Federal law permits assistance to households with incomes significantly above the poverty threshold.

On the other hand, the program does increase the total economic resources available to a household. The Government recognizes home energy as essential to the basic needs of individuals, and helps enable some households with limited resources obtain this basic necessity. In this sense, LIHEAP is akin to such programs as food stamps and subsidized housing. These and other in-kind benefits increase the economic well being of beneficiaries, releasing some money income for other needs.

LIHEAP is not aimed specifically at poor children. First, the presence of children in a household is not an eligibility requirement. Second, the law permits aid to a household with income above the poverty threshold. Third, the only population groups singled out in Federal law for special consideration are the elderly and the handicapped.[14] However, since children make up a large percentage of the poor, (almost 40 percent in 1983), families with children in poverty are major beneficiaries of LIHEAP.[15] The March 1984 Current Population Survey estimates that almost 50 percent of the families and individuals reporting receipt of energy assistance were families with children. Of these families, almost 75 percent had income below the poverty line.[16] (Estimates of LIHEAP's potential impact on the incidence of poverty among families with children are presented later.)

Eligibility

Federal law sets maximum income and categorical eligibility standards for energy assistance. States may use more restrictive standards. Eligibility is determined on a household basis. The statute defines a household as a group of individuals living together as an economic unit who customarily purchase residential energy as a unit. A household meets the Federal eligibility standards (a) if one or more members of the household receives AFDC, food stamps, SSI, or veterans pensions or Dependency and Indemnity Compensation,[17] or (b) if the household has a total income of less than the greater of 150 percent of poverty or 60 percent of a State's median income, adjusted for family size. For a 4-person household in FY 1985, 60 percent of estimated median income ranged from $12,426 in Arkansas to $21,217 in Connecticut and in most States exceeded the alternative income ceiling of 150 percent of poverty.

Over time, Federal eligibility standards for energy assistance have been liberalized somewhat. Before FY 1980, the energy programs of the Community Services Administration set the income ceiling at 125 percent of the poverty thresholds. The interim program that operated in FY 1980 expanded eligibility to include some cash welfare recipients with higher incomes. The FY 1981 program continued eligibility for cash welfare recipients and raised the maximum income limit to 100 percent of the Bureau of Labor Statistics lower living standard. Although the lower living standard varied by region and had different increments from the poverty thresholds for various family sizes, its national average value for an urban family was equivalent to approximately 135 percent of the poverty threshold for a 4-person family. The FY 1982 program increased income eligibility to the higher of either 150 percent of poverty or 60 percent of a State's median income (adjusted for family size). The FY 1982 rules are still in place. The Congressional Research Service estimates that 22 million households met Federal eligibility guidelines for energy assistance benefits in FY 1983.

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[14] States must make assurances that they will provide outreach activities to ensure that these groups are aware of available assistance. In practice, many States go beyond outreach, and have programs to make it easier for the elderly and handicapped to apply for and receive benefits.

[15] In FY 1981, households with "young children" were a priority group under Federal regulations.

[16] Analysis of energy assistance based on CPS reporting is risky. First, the CPS questions individuals only about receipt of heating assistance. Heating assistance accounted for about 65 percent of total available funds in FY 1983. Second, less than 70 percent of the households that received heating assistance in 1983 reported receiving such benefits on the CPS.

[17] However, AFDC foster care children are not categorically eligible, nor are SSI recipients in institutions receiving Medicaid, or who live in shared housing resulting in reduced benefits, or who are children living at home. Veteran's pension recipients include needy survivors and dependents of veterans who were disabled by a cause other than military service. Eligible for Dependency and Indemnity Compensation are parents of a veteran who died from a service-connected cause, provided their income is below specified limits.

Program goals and target groups

Two basic assumptions underlie LIHEAP—that residential energy, especially for heat, is essential to individual well-being and, that due to the energy price shocks of the 1970s, the cost of basic needs is excessive for those with low incomes. LIHEAP provides partial payment of utility bills, encourages lower overall energy bills through weatherization, and assists those with energy-related emergencies, such as the breakdown of a furnace.

Congress designed LIHEAP primarily to help low-income households "tread water" against a rising tide of energy prices, rather than to help lift them out of poverty. Since the program does increase recipient's economic resources, however, some anti-poverty effect should be expected (see below).

The design of LIHEAP recognizes the special vulnerability of the elderly and the handicapped to extremes of heat and cold. The law governing the FY 1981 program required States to give priority treatment to these groups, as well as to "households with young children." As a result, DHHS approval of outreach activities and benefit levels was required for these groups. The legal requirement for priority treatment was relaxed beginning in FY 1982, but the elderly and the handicapped continue to have a special status in the program, although the method for outreach now is left to the States and no priority in benefit levels is required.

Priority treatment of young children was discontinued after 1981. However, children make up a significant portion of the poor; and because enrollment in AFDC makes a household potentially eligible for benefits, households with children are a major group of LIHEAP beneficiaries.

Trends in participation

Reliable information on trends in the participation of families with children in LIHEAP does not exist. Two sources of data, the Department of Health and Human Services' report to Congress on LIHEAP for FY 1981 and the March 1984 Current Population Survey, give a partial picture of the extent to which LIHEAP reaches families with children.

In FY 1981, households either applied for LIHEAP benefits or, in some States, received benefits automatically, based on enrollment in other welfare programs (such as AFDC, food stamps or SSI). Table 8 shows the percent of applicant households receiving LIHEAP by priority group. Note that, nationally, 32.9 percent of the applicant households had at least one young child.[18] Two States, Connecticut and Pennsylvania, reported that more than 50 percent of applicant households had a young child. Table 9 shows the percent of households receiving automatic LIHEAP payments on the basis of their participation in other programs in the 11 States that used this option. More than 40 percent of automatic payment households also received AFDC, and therefore, included children. In three States, Michigan, New Jersey, and New York, AFDC families accounted for more than 60 percent of automatic payment households. It is not known what percentage of households receiving automatic payments based on participation in programs other than AFDC had children. A second source of LIHEAP data, the March 1984 CPS, shows that of the families that reported receipt of LIHEAP heating assistance in FY 1984, 48 percent had children. Of these families, 74 percent had incomes below the poverty threshold. Although these data are neither comprehensive nor completely reliable, they indicate that poor families with children are a significant portion of the LIHEAP caseload.

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[18] The definition of a "young child" varied from State to State.

TABLE 8.—PERCENT OF APPLICANT HOUSEHOLDS RECEIVING HEATING ASSISTANCE BY SPECIFIC TARGET GROUP CHARACTERISTICS BY STATE, FISCAL YEAR 1981

State	Total	Percent [1]			
		Elderly	Handi-capped	Migrant workers	Young children
Total	4,529,479	(2)	(2)	(2)	(2)
Percent		39.0	16.1	0.3	32.9
Alabama [3]	113,623	52.0	13.7	.1	21.1
Alaska	8,279	22.8	14.3	....	32.1
Arizona	33,431	23.8	18.5	3.3	36.9
Arkansas	17,834	40.9	11.1	.3	27.1
California	358,128	(4)	(4)	(4)	(4)
Colorado	80,048	33.5	25.9	1.5	24.0
Connecticut	56,447	23.9	13.0	.6	50.2
Delaware	13,355	30.5	7.5	.7	(4)
District of Columbia	18,415	32.3	10.0	.1	40.8
Florida	97,339	39.0	20.7	1.9	26.1
Georgia	139,077	49.9	19.2	.2	22.6
Hawaii	1,794	24.3	8.3	(5)	49.0
Idaho	24,196	28.6	12.4	1.2	32.8
Illinois	157,824	42.3	19.0	.2	27.0
Indiana [3]	119,895	44.7	20.8	(6)	(4)
Iowa	69,933	45.2	11.9	(5)	35.8
Kansas	47,022	38.2	22.9	.4	36.5
Kentucky	92,183	38.5	12.4	.1	24.4
Louisiana	8,000	14.9	8.7	(6)	7.4
Maine	52,610	40.0	14.5	.1	23.4
Maryland	64,118	31.1	5.6	.1	41.7
Massachusetts [7]	137,424	31.7	14.8	(6)	(4)
Michigan	349,827	39.4	2.8	(6)	17.7
Minnesota	111,141	40.0	12.8	.1	29.5
Mississippi	64,327	55.4	13.8	.8	38.3
Missouri	123,658	56.7	34.3	(5)	20.1

TABLE 8.—PERCENT OF APPLICANT HOUSEHOLDS RECEIVING HEATING ASSISTANCE BY SPECIFIC TARGET GROUP CHARACTERISTICS BY STATE, FISCAL YEAR 1981—Continued

State	Total	Percent [1]			
		Elderly	Handicapped	Migrant workers	Young children
Montana [3]	16,887	38.8	24.2	.3	37.6
Nebraska	28,096	38.2	13.6	.1	39.7
Nevada	9,896	57.7	20.5	(6)	30.5
New Hampshire	26,936	46.8	19.5	.4	39.1
New Jersey [8]	54,517	[9] 28.4	(10)	(4)	(4)
New Mexico	33,077	35.8	36.5	.2	(4)
New York	452,679	39.5	24.7	(5)	41.6
North Carolina	214,501	(4)	(4)	(4)	(4)
North Dakota	11,401	36.6	15.6	.1	29.0
Ohio [3]	279,657	31.7	16.8	.4	(4)
Oklahoma	72,260	46.0	11.6	(6)	35.7
Oregon [8]	38,870	41.5	14.6	1.2	22.4
Pennsylvania	324,878	36.9	7.0	(6)	50.4
Rhode Island	29,149	30.2	15.6	.4	28.1
South Carolina	36,875	56.1	9.4	(5)	34.5
South Dakota	12,999	51.4	24.3	.3	27.8
Tennessee	75,975	47.0	21.9	.2	26.0
Texas	11,197	44.6	15.2	(4)	48.2
Utah	23,304	29.7	25.3	.4	38.7
Vermont	20,800	26.2	.3	(5)	33.1
Virginia	104,158	36.2	22.4	.1	49.9
Washington	98,826	24.5	16.2	1.1	31.0
West Virginia	75,996	28.7	8.7	....	33.0
Wisconsin	109,825	28.0	15.7	(5)	35.2
Wyoming [1]	6,792	37.8	10.0	....	41.5

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[1] The percentage distributions of the U.S. total and for selected States were computed on a base that was less then the total number of applicant households assisted. Data were not available on the total number of households assisted or for household participation in specific programs in some States.

[2] The totals for these columns do not represent national totals. Not all States reported these characteristics for applicant households assisted. The national percentages reflecting participation in other assistance programs were computed based on only those States reporting other program participation. The totals for the reporting States were as follows: AFDC—1,025,085, food stamps—1,675,744, SSI—852,090, VA—146,672, and GA—210,156.

[3] Includes eligible tenant household data: Alabama—4,285, Indiana—117, Montana—575; and Ohio—31,454.

[4] State did not have a general assistance program.

[5] Reflects only those AFDC and SSI households that received an automatic payment and also had an application approved for a supplemental benefit.

[6] Data not available.

[7] Includes households that received general assistance and/or assistance from other public and private sources.

[8] Base excludes 2,603 households, data not available.

[9] Excludes households that received an automatic payment and also had an application approved for a supplemental benefit due to especially low income or high energy costs: New Jersey—16,000 and Oregon—21,766.

[10] Data based on a 10 percent random sample of households assisted, selected by the State and compiled by the Office of Reserach and Statistics.

Source: Low Income Energy Assistance Program; Report to Congress for fiscal year 1981; Department of Health and Human Services, Social Security Administration, Office of Family Assistance, Office of Energy Assistance; Aug. 31, 1982.

TABLE 9.—LIHEAP: PERCENT OF HOUSEHOLDS RECEIVING AUTOMATIC PAYMENTS FOR HEATING ASSISTANCE CLASSIFIED BY PARTICIPATION IN PROGRAMS PROVIDING CATEGORICAL ELIGIBILITY, BY STATE, FISCAL YEAR 1981 [1]

State [2]	Total	Percent			
		AFDC	Food stamps	SSI	Other [3]
Total [4]	2,737,451	1,129,180	597,910	844,624	165,737
Percent	100.0	41.2	21.8	30.9	6.1
Arkansas	82,530	5.0	66.4	28.6	
California	759,136	43.1		56.9	
Hawaii	19,810	51.8		33.9	14.3
Illinois	320,061	51.4	26.7	7.9	14.0
Louisiana	122,523	2.1	87.6	10.3	
Michigan	292,772	63.3			36.7
New Jersey	132,053	69.6		30.4	
New York	428,851	63.5		34.7	1.8
Oregon	65,229		100.0		
Texas	467,581	15.1	61.0	23.9	
Wisconsin	46,905			93.9	6.1

[1] Based on unduplicated counts of households receiving automatic payments as reported by the States.

[2] Only 11 States elected to provide automatic payment to categorically eligible households for heating assistance.

[3] This category consisted mostly of those households receiving general assistance.

[4] Includes 536,586 households that received an automatic payment and also had an application approved for a supplemental benefit due to especially low income or high energy costs.

Potential impact on poverty

The Census Bureau does not count LIHEAP benefits as income for purposes of measuring poverty. Therefore, the $2 billion spent on energy assistance has no effect on the official poverty rate, nor on the poverty gap. Estimating the potential impact on poverty is difficult. Energy assistance benefits come in a number of forms including cash, direct payment to fuel distributors, weatherization materials and labor, and in-kind emergency assistance such as furnace repair or space heaters. In theory, methods for valuing these various forms of benefits could be developed. However, data do not exist to tell what households receive which noncash benefits, and so the poverty status of beneficiary households cannot be determined.

Despite data and methods problems, LIHEAP's potential impact on poverty can be examined. In FY 1984, States spent approximately $1,397 million on heating assistance.[19] State heating assistance payments ranged that year from about $100 to $600 per household and averaged $225 nationally. According to the March 1984 CPS, 65 percent of the persons receiving heating assistance had an income below the poverty line. Therefore, if aid was evenly distributed by income class, States paid roughly $908 million in heating assistance ($1,397 million × .65) to poor persons.

If States used the $908 million only for assistance to poor families with children, and made equal payments to all families with children at the low State average benefit level ($100), 9 million poor families could have been assisted. But only 105,000 poor families with children had a poverty gap so small,[20] thus, 8.9 million families would have remained poor even if their $100 energy benefits were counted as income. If all States paid the national average benefit level ($225), 4 million families could have been assisted. But only 177,000 poor families with children had a poverty gap of $225 or less. At a payment level of $600 (State high average), 1.5 million families could have been assisted. But only 412,000 families with children had poverty gaps of $600 or less. At maximum then, the FY 1984 program could have eliminated about 400,000 poor families with children from poverty if the program benefits were counted as cash income. A more reasonable estimate would be closer to the 177,000 families whose poverty gap was not above the national average payment level of $225. This represents a potential reduction in the number of poor families with children of about 2 percent.[21]

Relationship to other programs

Little direct relationship exists between energy assitance and other means-tested Federal programs. The Low-Income Home Energy Assistance Act of 1981 prohibits counting energy assistance benefits as income for purposes of determining eligibility or benefit levels for any other Federal program. Therefore, no direct link esists between LIHEAP benefits and other program benefits, such as exists between food stamps and AFDC. Also, Federal law does not require that energy assistance benefit levels directly be related to family income and size, as usually is the case in cash assistance programs. In determining benefits, States may consider severity of climate, energy expenditures, fuel type, and housing type, as well as income and other family characteristics like age.

Nonetheless, because many recipients of energy assistance benefits also receive other means-tested assistance, LIHEAP can be considered part of the "safety net" available for some needy households.

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[19] In FY 1984, 75 percent of LIHEAP benefit expenditures went for heating assistance.

[20] Poverty gap estimates from March 1984 Current Population Survey. The poverty gap is the difference between a family's poverty threshold and its total money income (including cash transfers).

[21] Even this estimate is probably high. States make payments to households, not families, so that portion of the assistance payment available to a family would be somewhat less than the full payment amount. Also, States make payments to families and unrelated individuals without children. On the other hand, this estimate does not count the 25 percent of energy assistance benefits provided for cooling, weatherization, or crisis assistance.

Trends in spending

As table 10 shows, LIHEAP funding declined 10 percent from 1981 to 1982, then rose 6 percent above the 1981 level. Adjusted for price inflation, outlays, fell 10 percent between 1981 and 1984.

TABLE 10.—FEDERAL EXPENDITURES FOR LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM, FISCAL YEAR 1981–84

Fiscal year	Expenditures by States (millions)		Recipient households (thousands) [1]
	Current dollars	Constant 1984 dollars	
1981	1,783	2,063	7,100
1982	1,609	1,733	8,200
1983	1,898	1,975	8,700
1984	1,867	1,867	8,500

[1] Numbers reflect some double counting of households that received multiple program benefits.

IV. CHILD NUTRITION PROGRAMS

The Federal Government provides both cash and commodity assistance programs aimed at improving child nutrition. There are two general types of such programs: those providing assistance for meal service in institutions, such as schools; and those providing supplementary food for consumption at home. Some of the programs are limited to the financially needy, including children, while others are for all children but include special incentives for serving low-income children. Although the programs are not designed to reduce poverty among children, they generally seek to relieve poverty-related problems such as nutrition-related poor health and educational performance.

The major Federal child nutrition programs are the school lunch program, the school breakfast program, the summer food service program, and the special and commodity supplemental food programs for women, infants and children (WIC and CSFP). The FY83 funding levels and the number of participants in these programs are shown below:

[In millions]

	Fiscal year 1983	
	Funding	Participants
School lunch	[1] $2,325.9	[2] 23.0
School breakfast	345.4	[2] 3.5
Summer food service	91.9	[3] 1.4
WIC	1,184.4	[4] 2.5
CSFP	39.8	.14

[1] Cash only. Does not include commodity assistance.

[2] Includes nonpoor children (average daily).

[3] Peak month average.

[4] Average monthly.

This section briefly discusses these five child nutrition programs, covering eligibility criteria for participation, program goals, number and characteristics of children served, inter-relationships, and possible impact on poor children. Another major Federal child nutrition program, the child care food program, is discussed in the section on day care programs.

INSTITUTIONAL MEAL SERVICE: SCHOOL LUNCH

The school lunch program can be traced back to the 1930s, but the program was not permanently authorized until passage of the National School Lunch Act in 1946 (P.L. 79-396).

Under the school lunch program, Federal assistance is provided to schools serving lunches that meet specified nutritional standards. The Federal assistance is in the form of cash and commodity reimbursements for each meal served. The rate of cash reimbursement varies according to the family income of the participating child, although all meals are minimally subsidized regardless of family income. Free meals must be offered to children whose family income is no greater than 130 percent of the Federal poverty guidelines and reduced price meals to children whose family income is between 130-185 percent of the guidelines. Additional reimbursements are provided for each meal served to these poor and near-poor children. In addition to the cash reimbursements, commodities valued at a specified amount are provided for each school lunch served, without regard to the family income of participating children.

As originally instituted, the school lunch program required that free or reduced-price lunches be provided for children unable to pay the full price, but did not target special funds for this purpose. The program was changed by a 1962 amendment that provided for special assistance for free and reduced-price lunches served in schools located in low-income areas. In 1970, availability for this special assistance was extended to all schools and in 1971, the funding arrangement for the program was changed from State grants based on enrollment to "performance funding," with specified reimbursements provided for each lunch served. This later became an income-tested program for free and reduced price lunches based on income guidelines set by the Secretary of Agriculture. Income eligibility ceilings for free and reduced price lunches were expanded by Congress and now stand at 130 percent of the Federal poverty income guidelines for free lunches (a ceiling equal to $13,260 for a 4-person family in the year ending June 30, 1985) and between 130 percent and 185 percent of these guidelines for reduced-price lunches. Table 11 shows the number of paid and free or reduced rate participants in the school lunch program from FY 1947-1983.

TABLE 11.—NATIONAL SCHOOL LUNCH PROGRAM, CHILDREN PARTICIPATING, SELECTED YEARS 1947–83 [1]

[In millions]

Fiscal year	Total	Paid lunch participants (sec. 4)	Free and reduced price participants (sec. 11) [2]
1947	6.6	NA	NA
1950	8.6	NA	NA
1955	12.0	NA	NA
1960	14.1	NA	NA
1965	18.7	NA	NA
1970	22.6	17.0	5.6
1971	24.1	17.9	6.2
1972	24.4	16.6	7.8
1973	24.7	16.1	8.6
1974	24.6	15.5	9.1
1975	24.9	14.9	10.0
1976	25.5	14.7	10.8
1977	26.3	14.5	11.8
1978	26.7	14.9	11.8
1979	27.1	15.4	11.7
1980	26.6	14.7	11.9
1981	25.8	13.3	12.5
1982	22.9	11.5	11.4
1983	23.2	11.2	12.0

[1] 9-month average monthly participation.
[2] Free lunch participants account for 93 percent of the totals in this column.

Source: U.S. Department of Agriculture. Annual Statistical Review. Food and Nutrition Program, fiscal year 1981; and Food Program Updates.

The federally guaranteed reimbursement rates created in 1971 for all categories of lunches under the school lunch program have also changed. Initial changes (in the period 1972–1974) increased the amount of reimbursement, and required that the reimbursement rate be adjusted for price inflation twice yearly. Later changes under the reconciliation acts of 1980 and 1981 attempted to control spending under the school lunch program by limiting the inflation adjustment to once a year and lowering federally mandated school lunch reimbursement rates.[22] The Administration's request for both FY83 and FY84 recommended additional changes to further control spending under the school lunch program. However, Congress rejected these recommendations.

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[22] For more information on the school lunch program, see CRS Report 83-539 EPW, School Lunch Program: Brief Description, History and Data, by Jean Yavis Jones. 14 p.

TABLE 12.—FEDERAL CASH ASSISTANCE FOR THE NATIONAL SCHOOL LUNCH PROGRAM[1]

[Obligations in thousands of dollars]

Fiscal year	Basic (sec. 4)[2]	Constant 1983 dollars	Special assistance (sec. 11)	Constant 1983 dollars	Total	Constant 1983 dollars
1947	59,853	278,553			59,853	278,553
1948	53,948	228,688			53,948	228,668
1949	58,752	240,777			58,752	240,777
1950	64,521	269,203			64,521	269,203
1951	68,156	267,939			68,156	267,939
1952	66,294	249,148			66,294	249,148
1953	67,071	248,440			67,071	248,440
1954	67,177	246,723			67,177	246,723
1955	68,935	254,284			68,935	254,284
1956	66,826	245,612			66,826	245,612
1957	83,775	299,206			83,775	299,206
1958	83,708	289,365			83,708	289,365
1959	93,794	319,842			93,794	319,842
1960	93,647	314,926			93,647	314,926
1961	93,628	310,830			93,628	310,830
1962	98,680	324,268			98,680	324,268
1963[3]	108,537	352,485			108,537	352,485
1964	120,793	386,771			120,793	386,771
1965	130,413	412,295			130,413	412,295
1966	139,016	430,152	1,866	5,774	140,822	435,740
1967	147,657	443,183	1,958	5,877	149,615	449,060
1968	154,732	449,417	4,878	14,168	159,610	463,586
1969	161,151	446,553	42,021	116,441	203,172	562,995
1970	167,995	439,494	132,012	345,359	300,007	784,853
1971	225,667	561,425	306,155	761,667	531,882	1,323,241
1972	248,418	596,509	491,357	1,179,861	739,775	1,776,370
1973	324,102	748,052	555,307	1,281,691	879,409	2,029,744
1974	407,923	864,190	681,540	1,443,852	1,089,463	2,308,042
1975	466,856	890,609	818,373	1,561,190	1,285,229	2,451,799
1976	511,300	910,776	998,350	1,778,355	1,509,650	2,689,130
TQ[4]	66,856	115,141	125,786	216,631	192,642	331,771
1977	561,674	930,552	1,105,251	1,831,121	1,666,925	2,761,673
1978	618,200	956,644	1,205,793	1,865,924	1,823,993	2,822,568
1979	684,600	960,246	1,299,100	1,822,167	1,983,700	2,782,413
1980	773,100	954,756	1,508,500	1,862,954	2,281,600	2,817,710
1981	708,700	787,965	1,672,400	1,859,450	2,381,100	2,647,303
1982	420,700	435,474	1,770,400	1,832,571	2,191,100	2,268,045
1983	446,900	446,900	1,958,600	1,958,600	2,405,500	2,405,500

[1] Does not include commodities or cash payments in lieu of commodities.

[2] Includes Federal revenues provided under all of sec. 4. This includes the basic assistance provided for lunches served free or at reduced price which also receive special assistance subsidies shown under col. 2.

[3] Although funding for the special assistance program was authorized beginning in fiscal year 1963, the program was not funded until fiscal year 1966.

[4] Transition quarter—period from July 1 through Sept. 30, 1976, just prior to the official change in the fiscal year from July 1 through June 30 to Oct. 1 through Sept. 30.

Source: U.S. Department of Agriculture, Food and Nutrition Service. Budget explanatory notes, and food program data.

INSTITUTIONAL MEAL SERVICE: SCHOOL BREAKFAST

The school breakfast program provides Federal funds to assist in providing breakfasts to children in schools and residential child care institutions. The funding is provided to States based on a mandated reimbursement rate that varies according to the family income of participating children and is annually adjusted for inflation. In addition, higher reimbursements are available for certain schools that are determined to be in severe need. The programs must operate on a nonprofit basis and the breakfasts must meet nutritional standards set by the Secretary of Agriculture.

To receive free breakfasts under this program, children must come from families with incomes that do not exceed 130 percent of the Federal poverty income guideline. Reduced price breakfasts must be offered to children from families with incomes between 130 percent and 185 percent of the OMB poverty level. Approximately 90 percent of children served by the breakfast program receive free or reduced price breakfasts. Table 13 shows the annual number of free, reduced price, and paid meals and the funding levels under the school breakfast program from FY 1967–1983.

TABLE 13.—SCHOOL BREAKFAST PROGRAM—FUNDING AND PARTICIPATION [1]

Fiscal year	Average daily participation				Program level (thousands)	
	Total	Free	Reduced	Paid	Funding	Constant 1983 dollars
1967	80,000	[2] 60,000		20,000	573	1,720
1968	200,000	[2] 100,000		100,000	2,000	5,809
1969	300,000	[2] 200,000		100,000	5,540	15,351
1970	600,000	[2] 400,000		200,000	10,870	28,437
1971	1,000,000	[2] 800,000		200,000	20,140	50,105
1972	1,100,000	[2] 900,000		200,000	24,422	58,643
1973	1,300,000	1,100,000	30,000	170,000	37,002	85,404
1974	1,500,000	1,200,000	20,000	280,000	58,521	123,978
1975	2,000,000	1,600,000	50,000	350,000	83,000	158,337
1976	2,300,000	1,900,000	70,000	330,000	116,500	207,521
TQ [3]	2,100,000	1,700,000	80,000	320,000	16,963	29,167
1977	2,600,000	2,100,000	100,000	400,000	144,076	238,698
1978	2,800,000	2,200,000	240,000	460,000	184,269	285,150
1979	3,200,000	2,500,000	200,000	500,000	216,435	303,580
1980	3,566,800	2,756,800	251,600	558,400	246,985	305,020

TABLE 13.—SCHOOL BREAKFAST PROGRAM—FUNDING AND PARTICIPATION [1]—Continued

Fiscal year	Average daily participation				Program level (thousands)	
	Total	Free	Reduced	Paid	Funding	Constant 1983 dollars
1981 [4]	3,810,000	3,050,000	250,000	510,000	331,700	368,799
1982 [4]	3,320,000	2,800,000	160,000	360,000	320,400	331,652
1983 [4]	3,380,000	2,890,000	150,000	338,000	350,600	350,600

[1] From, U.S. Department of Agriculture, Food and Nutrition Service budget documents and appropriations hearings for various years, unless otherwise noted.

[2] Participation not separated for these years.

[3] Transition quarter—period from July 1, 1976 through Sept. 30, 1976 just prior to the official change in the fiscal year from July 1 through June 30 to Oct. 1 through Sept. 30.

[4] Numbers from the U.S. Department of Agriculture, Food and Nutrition Service, Food Program Updates.

INSTITUTIONAL MEAL SERVICE: SUMMER FOOD SERVICE

The summer food program provides Federal funding for meals served during the summer months to children in programs operated by schools or municipal or other government agencies in areas where at least one-half of the children are eligible to receive free or reduced price school lunches. Under this program, meals and snacks may be served free to all children participating in regular summer programs and to children in camps whose family incomes are at or below 185 percent of the OMB poverty level. The Federal reimbursement rates are set by law and adjusted for inflation annually. Table 14 shows the expenditures, number of children participating, and meals served under the summer food service program from FY 1969–1983.

TABLE 14.—SUMMER FOOD SERVICE PROGRAM—FUNDING AND PARTICIPATION, FISCAL YEARS 1969–83

Fiscal year [1]	Expenditures (thousands) [2]	Constant 1983 dollars (thousands)	Children participating (peak month) (thousands) [3]	Meals served (millions)
1969	309	856	98.6	2.1
1970	1,753	4,586	226.9	8.2
1971	8,112	20,181	569.0	29.0
1972	21,817	52,388	1,080.0	73.5
1973	26,547	61,273	1,437.0	65.4
1974	33,532	71,038	1,402.8	63.6
1975	50,230	95,823	1,784.7	84.3
1976	73,379	130,710	2,453.8	104.8
TQ [4]	144,623	249,072	3,455.0	197.9
1977	129,649	214,796	2,791.0	170.4

TABLE 14.—SUMMER FOOD SERVICE PROGRAM—FUNDING AND PARTICIPATION, FISCAL YEARS 1969–83—Continued

Fiscal year [1]	Expenditures (thousands) [2]	Constant 1983 dollars (thousands)	Children participating (peak month) (thousands) [3]	Meals served (millions)
1978	100,266	155,158	2,333.7	120.3
1979	112,509	157,810	2,126.0	121.8
1980	113,194	139,791	1,922.0	108.2
1981	105,426	117,218	1,926.0	90.3
1982	87,426	90,496	1,418.0	69.8
1983	94,500	94,500	1,300.0	70.8

[1] The summer program operates only in the summer months—part of May through part of September. For this table, fiscal years 1969–76 begin July 1 of the preceding calendar year and end on June 30 of the fiscal year indicated. Beginning in fiscal year 1977, the fiscal year was changed to an Oct. 1–Sept. 30 period, so the fiscal year reflects the calender year months of program operation, May–September.

[2] Excludes commodities.

[3] Peak participation month is July.

[4] Transition quarter—period from July 1 through Sept. 30, 1976, just prior to official change in fiscal year from July 1, through June 30 to Oct. 1 through Sept. 30.

Source: U.S. Department of Agriculture, Food and Nutrition Service.

SUPPLEMENTARY FOOD FOR AT-HOME CONSUMPTION: SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS AND CHILDREN (WIC)

The WIC program, which began in 1972, provides Federal grants-in-aid to State health or comparable agencies, which then distribute the funds to participating agencies. Beneficiaries of the program are low-income pregnant and post-partum women and infants and children who exhibit evidence of nutritional risk. They receive supplemental food, specified by USDA regulations, either as actual food items or vouchers valid for purchase of specific food items in retail outlets. The food is tailored to the nutritional needs of participants.

The income eligibility level for participation is generally determined by State and local agencies but may not exceed the income eligibility level set for reduced-price school lunches (185 percent of the Federal poverty income guidelines) and may not be less than 100 percent of the poverty guidelines. Up to 20 percent of the Federal WIC funds are made available for administrative costs, including certifying nutritional eligibility, food delivery, warehousing, monitoring, nutritional education, and clinic operations. The national average monthly food benefit for a WIC recipient during FY83 was approximately $30.00, and the national average administrative cost per recipient during FY 1983 was approximately $7.30. As of December 1, 1984, the program was authorized through FY 1984 under the Child Nutrition Act of 1966.[23]

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[23] An annualized sum of $1.5 billion was appropriated for the program as part of the fiscal year 1985 agricultural appropriations bill included in the Continuing Appropriations Resolution (Public Law 98–473). The CNA itself, however, was not revised to authorize WIC beyond fiscal year 1984.

Table 15 shows the number of women, infants and children participating in the WIC program from FY 1974 through July 1984. Table 16 shows the costs of the WIC program from FY 1974-February 1984. In 1981-84 the Reagan Administration proposed changes that would have reduced funds available under the WIC program. These were not approved by Congress.

TABLE 15.—WIC PROGRAM PARTICIPATION, FISCAL YEARS 1974-84

Fiscal year	Average monthly participation [1] (thousands)			
	Women	Infants	Children	Total
1974	17	26	44	88
1975	55	103	186	344
1976	81	148	291	520
1977	165	213	471	848
1978	240	308	633	1,181
1979	312	389	728	1,483
1980	411	506	993	1,910
1981	445	585	1,088	2,118
1982	477	623	1,088	2,189
1983	542	730	1,265	2,537
1984 (July) [2]	657	830	1,580	3,067

[1] Average monthly participation. Different from year-end which is usually higher.

[2] Participation data for July 1984 only. Annual average monthly data not yet available.

Source: U.S. Department of Agriculture, Food and Nutrition Service.

TABLE 16.—WIC PROGRAM COSTS, FISCAL YEARS 1974-84

Fiscal year	Cost [1] (in millions of dollars)						Average food benefit per person	Constant 1984 dollars
	Food	Constant 1984 dollars	Administration	Constant 1984 dollars	Total	Constant 1984 dollars		
1974	8.2	18	2.2	5	10.4	23	$15.68	$35
1975	76.7	152	12.6	25	89.3	177	18.50	37
1976	122.3	227	20.3	38	142.6	264	19.60	36
1977	211.7	365	44.2	76	255.9	441	20.80	36
1978	311.5	502	68.1	110	379.6	611	21.99	35
1979	428.6	626	96.8	141	525.4	767	24.09	35
1980	584.1	751	123.8	159	707.9	910	25.48	33
1981	708.0	819	180.0	208	888.0	1,028	27.86	32
1982	756.3	815	191.9	207	948.2	1,022	28.79	30
1983	901.8	939	231.4	241	1,133.2	1,180	29.62	31
1984 [2]	N/A	....	N/A	....	1,357.0	1,357	N/A	....

[1] Excludes all previous year unspent funds and program evaluation funds of approximately $3 million for each fiscal year since 1979.

[2] Full FY appropriation level of $1.36 billion. Breakdown of food and administration costs not available.

Note: Columns may not total due to rounding.

Source: U.S. Department of Agriculture, Food and Nutrition Service.

SUPPLEMENTARY FOOD FOR AT-HOME CONSUMPTION: COMMODITY SUPPLEMENTAL FOOD PROGRAM (CSFP)

Since 1969, this program has provided free, Government-purchased commodities to low-income, nutritionally at-risk pregnant women, new mothers, and children under age 6. The program was begun by USDA under its discretionary authority to distribute surplus commodities to low-income persons and was funded by annual appropriations. Later it was specifically authorized under the Food and Agriculture Act of 1977. In FY 1983, it operated in 25 project areas, fewer than one-tenth of the number of areas (260) with projects before WIC was begun in 1972. Until 1978, the Department of Agriculture interpreted the law to prohibit the operation of the WIC and CSFP programs in the same geographic areas. In 1978, Congress authorized the simultaneous operation of WIC and CSFP in the same areas (P.L. 95–627), but required the Secretary of Agriculture to issue regulations to prevent recipients from receiving benefits from both programs at once. As shown in table 17, the average number of monthly participants in CSFP in FY 1983 was just over 138,000, and the Federal cost was approximately $33.4 million.

TABLE 17.—AVERAGE MONTHLY PARTICIPATION AND COST, COMMODITY SUPPLEMENTAL FOOD PROGRAM, FISCAL YEARS 1969–83

Fiscal year	Cost (millions)	Constant 1983 dollars (millions)	Average monthly participation
1969	$1.0	$3.0	40,000
1970	7.8	20.0	147,000
1971	12.8	32.0	202,000
1972	12.9	31.0	192,000
1973	13.3	31.0	164,000
1974	15.1	32.0	146,000
1975	17.3	33.0	132,000
1976	17.2	31.0	132,000
TQ	4.0	7.0	111,000
1977	14.6	24.0	114,000
1978	16.0	25.0	95,000
1979	17.4	24.0	97,000
1980	21.2	26.0	102,000
1981	23.7	26.0	115,000
1982	26.3	27.0	126,000
1983	33.4	33.4	138,000

Source: Food and Nutrition Service, U.S. Department of Agriculture.

CHILD NUTRITION PROGRAMS AND CHILDREN'S POVERTY STATUS

In general, child nutrition programs were not designed to eliminate poverty but to improve the nutritional status of participants. Over the years, these programs have evolved so that special emphasis now is given to providing food to low-income children. Data are not avilable on the economic status of children participating in child nutrition programs, although we know that a certain number of children are eligible for income-tested portions of the programs and thus come from families with incomes below a specified level. The minimum income ceilings used for determining eligibility in most child nutrition programs is 30 percent above the Federal poverty income guidelines (during the 1984-85 school year, this amounted to $10,998 for a three-person family, $13,260 for four).

It seems likely that actual school lunch participation by low-income children, as in other programs offering discretionary services, would depend upon the accessibility of services, as well as the children's propensity to participate. The school lunch program appears to be widely available (over 90 percent of all school children have a NSLP in their school) and there is some evidence that actual participation in the program is greater among low-income children than among higher-income children. Furthermore, the significantly higher reimbursements for free and reduced-price meals make it more likely that schools with large percentages of low-income children will offer the program.[24] In contrast, although the school breakfast program serves largely low-income children, it appears that—unlike the school lunch program—is is not available to such a high percentage of all students (see tables 11 and 13). Finally, there are not current data on the income characteristics of WIC participants, although we know that the income limit cannot be above 185 percent of the Federal poverty income guideline nor below 100 percent of the guideline. Within this outer limit, actual income eligibility criteria for WIC vary by State. Furthermore, recipients also must meet a test of nutritional risk.

Just as there are not data on the income characteristics of participants in child nutrition programs, there are not data on the impact of child nutrition programs on poor children. As noted earlier, the programs are intended to improve certain povety-related factors, such as the nutritional status of participants, and to accomplish certain social goals, such as improved educational performance.

Evaluations of the child nutrition programs indicate that they appear to make some contribution to nutritional status and that, insofar as poor children are served by these programs, they benefit nutritionally to some degree. For example, CBO has noted several studies done of the school lunch and school breakfast programs that found the programs appeared to be correlated with increased intake of specific nutrients, with the largest impact among children from low-income States.[25] However, in discussing the findings of a national dietary analysis of three child nutrition programs, CBO indicated that the study showed that the nutritional adequacy of childrens' diets was probably not significantly altered by participation in individual programs (with the possible exception of school breakfast) but that children who participated in *both* the lunch and breakfast programs significantly improved their nutrition scores.[26]

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[24] See tables 11, 12 and 13 for comparison of school lunch and school breakfast funding and participation.

[25] U.S. Congress. Congressional Budget Office. Feeding Children: Federal Child Nutrition Policies in the 1980's. Washington, U.S. Govt. Print. Off., May 1980. p. 62-63.

[26] Ibid., p. 65-66.

In summarizing studies done of children who participated in child nutrition programs, CBO noted that, "in general, income was not found to be a statistically significant factor in explaining individual nutrient intakes as a proportion of recommended dietary allowances . . . [but] for low-income school-age children, the combination of a breakfast and a lunch program appears to provide the highest nutritional benefits." [27]

Evaluations of of the WIC program have generally found it to be successful in accomplishing health and nutrition goals. A CBO summary of medical evaluations of WIC between 1973 and 1978 indicates that the program was found to contribute to gains in birth weights, to weight and height gains in children, and to reduced levels of anemia in pregnant women and low-birth weight infants.[28] However, a January 1984 GAO analysis of the methodology and conduct of the WIC evaluations found that there is "some sound, but not conclusive evaluative evidence of favorable program effects on birthweights and little credible evidence on several other measures of effectiveness." [29]

V. FOSTER CARE

The Federal Government funds three major Federal programs, all of which are authorized under the Social Security Act, that finance foster care services for children: AFDC foster care under title IV-E, which provides foster care maintenance payments; child welfare services under title IV-B, which provides funds for foster care services; and foster care services under title XX (social services block grant program). The AFDC program is aimed at financially needy children, while the title XX and child welfare services programs impose no income test. None of the programs is designed to reduce poverty among children. Each has other specific program goals.

In FY84, an estimated 97,000 children (average monthly) participated in the AFDC foster care program.[30] The FY84 appropriations for the program were $483.4 million; the FY85 appropriations are $460.3 million. Because the other two programs provide services at the discretion of the States, their precise expenditures for foster care are unknown. It was estimated that of the nearly $3 billion in Federal title XX funds in FY79, 5.6 percent was spent for foster care services for children.[31] The estimated number of children receiving foster care services under title XX in FY78 was 163,000 (per quarter).[32] Comprehensive data on foster care services funded by the child welfare services program under title IV-B are not available, although it was estimated that State expenditures for foster care under the title IV-B program from all sources for FY79 were $581 million or approximately 73 percent of total expenditures of $793 million.[33]

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[27] Ibid., p. 73-74.

[28] Ibid., p. 61-62.

[29] U.S. General Accounting Office. WIC Evaluations Provide Some Favorable But No Conclusive Evidence on the Effects Expected for the Special Supplemental Program for Women, Infants, and Children. [Wash.], GAO, Jan. 30, 1984. Rept. No. GAO/PEMD-84-4. p. viii.

[30] Data from Administration on Children, Youth and Families, HHS.

[31] U.S. Congress. House. Committee on Ways and Means. Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means. Wash., U.S. Govt. Print. Off., 1984. p. 419.

[32] U.S. Congress. Senate. Committee on Finance. Subcommittee on Public Assistance. Staff Data and Materials Relating to Social and Child Welfare Services. Wash., U.S. Govt. Print. Off., 1979. p. 43.

The following is a brief discussion of the major Federal foster care programs, including eligibility criteria for participation, program goals, number and characteristics of children served, inter-relationships with other programs, and possible impact on poor children.

FOSTER CARE: AFDC

The Aid to Families With Dependent Children (AFDC) foster care program was established in 1961 as part of the regular AFDC (formerly the ADC) program, authorized by title IV-A of the Social Security Act. In 1980, Congress removed the foster care component of AFDC from title IV-A and put it into a new title IV-E, along with the newly established adoption assistance program (Adoption Assistance and Child Welfare Act of 1980). This foster care program, which is permanently authorized, is the largest Federal program providing for foster care maintenance for children. It provides matching funds to States for the maintenance payments for AFDC-eligible children in foster care. The federal matching rate for a given State is that State's Medicaid matching rate, which averages about 54 percent nationally. In some cases, children are eligible for funds under title IV-E only if removed from the home as a result of a court order determining that to be in the best interests of the child; in other cases, under a temporary provision, eligibility extends to children placed in foster care under a voluntary placement agreement between the welfare agency and parents.

During the 1970s the AFDC foster care program grew rapidly, with annual Federal expenditures in excess of $200 million in the latter 1970s. During that period, the Nation's foster care system was criticized for rising costs and for being "a receiving or holding system for children living away from their parents, rather than a system that assisted parents in carrying out their roles and responsibilities. . . ."[34] By the end of the 1970s, an estimated 500,000 children lived in foster care in the U.S.; around 100,000 of these received AFDC foster care support and most of the rest received Federal and State child welfare funds, which are allocated without regard to a family's income. One of the purposes of the 1980 legislation was to redefine child welfare services to promote permanent placement of children and family reunification; and to make other changes in the foster care program intended to provide incentives to States to help reduce foster care costs.

It is estimated that after passage of the 1980 legislation, Federal expenditures grew from approximately $300 million in FY81 (under IV-A) to $454 million in FY84 (under IV-E). Table 18 shows the number of AFDC children in foster care since FY62 and estimated expenditures since FY71. In constant dollars, Federal expenditures have more than doubled in 12 years.

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[33] U.S. Congress. Senate. Committee on Finance. Subcommittee on Public Assistance. Statistical Data Related to Public Assistance Programs. Wash., U.S. Govt. Print. Off., 1980. p. 111-113.

[34] U.S. Department of Health and Human Services. Report on P.L. 96-272. June 11, 1984. p. 2.

TABLE 18.—AFDC FOSTER CARE RECIPIENTS AND EXPENDITURES UNDER TITLE IV-E OF THE SOCIAL SECURITY ACT, FISCAL YEARS 1962-84 [1]

Fiscal year	AFDC foster care children (average monthly number) [2]	Total		Federal	
		Expenditures current dollars (millions) [3]	Constant dollars 1984	Expenditures current dollars (millions) [3]	Constant dollars 1984
1962	989	([4])	([4])	([4])	([4])
1963	2,308	([4])	([4])	([4])	([4])
1964	4,081	([4])	([4])	([4])	([4])
1965	5,623	([4])	([4])	([4])	([4])
1966	7,385	([4])	([4])	([4])	([4])
1967	8,030	([4])	([4])	([4])	([4])
1968	8,500	([4])	([4])	([4])	([4])
1969	16,750	([4])	([4])	([4])	([4])
1970	34,450	([4])	([4])	([4])	([4])
1971	57,075	[5] $70	$181	[5] $40	$104
1972	71,118	[6] 160	400	[6] 85	212
1973	84,097	[6] 129	310	[6] 71	171
1974	90,000	[6] 166	366	[6] 90	198
1975	106,869	[6] 259	514	[6] 138	274
1976	114,962	[6] 423	784	[6] 221	410
1977	110,494	[7] 351	605	[7] 183	316
1978	106,504	[8] 403	649	[8] 209	337
1979	103,771	[9] 392	572	[9] 205	299
1980	100,272	416	535	217	279
1981	106,443	579	670	[10] 303	351
1982	103,274	673	725	[10] 351	378
1983	101,594	702	731	[10] 364	379
1984	[11] 97,000	[11] 839	839	[10 11] 454	454

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[1] Program funded under title IV-A of the Social Security Act prior to 1981.

[2] Data on number of children for fiscal years 1962-83 from Division of Research, Evaluation and Statistics, Office of Family Assistance, Social Security Administration. Data for fiscal year 1984 from Office for Planning and Management, Administration on Children, Youth and Families, Department of Health and Human Services.

[3] Expenditure data for fiscal years 1971-79 from Expenditures for Public Assistance Programs. Data for fiscal year 1980 from Office of Family Assistance, Social Security Administration. Data for fiscal years 1971-80 do not include training and administrative costs. Data for fiscal years 1981-84 from Administration on Children, Youth and Families, Department of Health and Human Services and do not include training and administrative costs.

[4] Not collected.

[5] There was no reporting for Illinois, Massachusetts, and Pennsylvania for fiscal year 1971.

[6] No reporting for Illinois, Virgin Islands, or Puerto Rico for fiscal years 1972-76.

[7] No reporting for Illinois, Puerto Rico, the Virgin Islands, or Guam for fiscal year 1977.

[8] No reporting for Illinois, Rhode Island, Guam, Puerto Rico, or the Virgin Islands for fiscal year 1978.

[9] No reporting for Illinois, Arizona, Guam, Puerto Rico, or the Virgin Islands for fiscal year 1979.

[10] Includes claims for transfer of unused title IV-E foster care funds to title IV-B child welfare services.

[11] Full year estimates developed by Administration on Children, Youth, and Families based on three quarters of real data.

FOSTER CARE: CHILD WELFARE SERVICES

Another major source of Federal funding for foster care is the child welfare services program under title IV-B of the Social Security Act, which provides matching funds for child welfare services without regard for the family's income. The majority of Federal title IV-B child welfare funds are spent for foster care.[35] State estimates of total expenditures reported under title IV-B from all sources for FY79 indicate that approximately 73 percent of a total of $793 million was used for foster care.[36]

FOSTER CARE: SOCIAL SERVICES BLOCK GRANT

Funding for foster care is also available under the social services block grant program (title XX of the Social Security Act). The Federal statute imposes no financial need criteria for these funds, but States may impose such requirements (and before the title XX program was converted into a block grant operation in 1981, the law imposed an outer income eligibility limit, set at 115 percent of State median income adjusted for family size). Federal spending for foster care services under title XX represented approximately 4.6 percent of total expenditures of approximately $2.8 billion under that program in FY78 and about 5.6 percent of total expenditures of approximately $3 billion in FY79.[37] Exact expenditures for foster care under the program are unknown because of the discretionary nature of the funds. A recent GAO study indicates that foster care and adoption expenditures by States from all sources appear to have been relatively stable at about 11 percent of the total State social service expenditures from FY81 to FY83.[38] The HHS data based on pre-expenditure reports from the States for FY84 indicate that foster care spending under title XX may have declined slightly that year.[39]

OTHER FOSTER CARE PROGRAMS

Needy disabled or blind children who need foster care services are eligible for funds under the Supplemental Security Income (SSI) program authorized by title XVI of the Social Security Act. It is estimated that about 30,000 SSI children live in foster care or other residential settings away from their families.[40]

In addition, foster care is affected by funding in other areas. For example, it is maintained that Federal adoption assistance programs, such as that under title IV-E of the Social Security Act, serve as incentives to States to place children in permanent living situations, removing them from the foster care (temporary living) system. This, it is said, could reduce the total foster care population, freeing foster care funds for other child welfare services.

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[35] See, for example, Statistical Data Related to Public Assistance Programs, p. 111-113.

[36] Ibid.

[37] Funding levels: Background Materials and Data on Programs Within the Jurisdiction of the Committee on Ways and Means, p. 411. FY78 expenditures: Staff Data and Materials Relating to Social and Child Welfare Services, p. 42. FY79 expenditures: Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means, p. 419.

[38] U.S. General Accounting Office. States Use Several Strategies to Cope with Funding Reductions Under Social Services Block Grant. Wash., General Accounting Office, Aug. 9, 1984 [GAO/HRD-84-68] p. 23.

[39] U.S. Department of Health and Human Services. Office of Human Development Services. Office of Policy and Legislation. Summary of Information. Social Services Block Grant Pre-Expenditure Reports, FY84. p. 19.

[40] U.S. Library of Congress. Congressional Research Service. Adoption: Federal Programs and Issues. CRS Report No. 83-51 EPW by Jan Fowler, Apr. 11, 1983. p. 13.

FOSTER CARE AND CHILDREN'S POVERTY STATUS

By definition, the foster care population served by title IV-E funds is needy (i.e., AFDC-eligible). However, there are little data available on the characteristics of this population or on the total U.S. foster care population, including the number who are below poverty level. A number of studies of children requiring foster care and the reasons for foster care placement have suggested some correlation between a family's financial deprivation and the need for foster placement. These studies have also suggested possible correlations between the need for foster care placement and such poverty-related factors as poor health, poor housing, absence of the father from the home, and race.[41] Although there has been no comprehensive study of the relationship of foster care and poverty, it appears that financially needy children may be more likely than others to require foster care placement. Thus, Federal foster care funds, whether targeted to the needy or not, may reach more needy than non-needy children.

The purpose of the foster care funds is to provide for the care of the children in an out-of-home placement. However, the 1980 legislation, as noted earlier, expanded the legislative purposes of title IV-B and IV-E funds to include reducing long-term foster care placement and foster care costs in order to free up funds for other child welfare services, many of which also address poverty-related factors such as poor nutrition and lower educational attainment, although the funds are not restricted to the financially needy. The Act contained fiscal incentives to States to accomplish these goals.

The HHS reported in June 1984 that since the passage of the 1980 legislation, States have changed their child welfare systems, decreasing the number of children and the duration of placement in foster care; increasing the number of children for whom claims were made made for adoption assistance funds; and improving child welfare services. Based on data reported to HHS, the U.S. foster care population appears to have dropped drastically (51 percent) from approximately 500,000 in 1977 to 243,000 in 1982.[42] The data reported to HHS indicate that during the same period, the title IV-E population fell only 6.5 percent (from approximately 110,494 to 103,274).[43] However, the title IV-E population has represented about 1.4 percent of the AFDC-eligible children since 1976.[44] HHS has also pointed to study findings that since passage of the legislation, children are spending a shorter period of time in foster care placements than previously.[45] However, an August 1984 GAO study charges that States have been receiving the incentive funds for child welfare services under the 1980 legislation without fully complying with legislative requirements, which suggests that any reduction in the foster care population may be unrelated to the success of the legislative incentives.[46] It appears that the net effect of the 1980 provisions on the foster care system is currently unknown.

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[41] See, for example: Robert H. Bremner et al., eds. Children and Youth in America. A Documentary History. Vol. III: 1933-1973. Cambridge, Mass., Harvard University Press, 1974. p. 673-677.

U.S. Department of Health, Education, and Welfare. Office of Human Development. Office of Child Development. Foster Care in Five States by Shirley M. Vasaly, Social Research Group, George Washington University. [DHEW Publication No. (OHD) 76-30097] p. 15-30.

Phillips, Michael H., Ann W. Shyne, Edmund A. Sherman, and Barbara L. Haring. Factors Associated with Placement Decisions in Child Welfare. Research Center, Child Welfare League of America, Inc., 1971. p. 7-15.

Gruber, Alan R. Children in Foster Care—Destitute, Neglected . . . Betrayed. New York, Human Sciences Press, 1978. p. 130-50.

[42] U.S. Department of Health and Human Services. The Twenty Year Trend of Federally Assisted Foster Care by Charles P. Gershenson, Ph.D. Child Welfare Research Notes #8, July 1984, p. 3.

[43] Ibid.

Federal foster care programs are not intended to remove foster care children from poverty. However, the indirect effects of the funds—particularly reducing the foster care population and funding other child welfare services that may help alleviate poverty-related symptoms—may contribute to such results. Children who are placed for adoption through the foster care system may enter families with incomes above poverty. However, study results seem to indicate that most children leaving the system are returning to their families. In those cases, it appears most likely that foster care funds assist the family through crisis periods but probably do little to address their poverty status or long-range financial needs.

VI. DAY CARE

Numerous Federal programs provide funds that are used for day care and day-care related services for children, including Head Start, the social services block grant program (title XX of the Social Security Act), the child care tax credit program under the Internal Revenue Code, and the child care food program under the National School Lunch Act. Some of these programs are targeted to the financial needy, while others impose no income test. The programs provide discretionary services, none of which is primarily or directly intended to reduce poverty among children. Each program seeks to accomplish certain other objectives.

The following chart shows funding levels (most recent available) and children (or families) receiving day care under these programs:

	Funding (millions)	Number served
Head Start (FY84)[1]	[2]$996	430,149 children (estimated).
Child care food program (FY84)[3].	[2]348	1.1 million children (peak month average, estimated).
Child care tax credit (CY82)[4]	1,500	5 million families.
Title XX social services (FY79)[5]	[6]630	Not readily available.

[1] Estimates on number of children served from Department of Health and Human Services.

[2] Appropriation.

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[44] Ibid.

[45] Report on P.L. 96-272, p. 6, 20.

[46] U.S. General Accounting Office. Better Federal Program Administration Can Contribute to Improving State Foster Care Programs. Wash., General Accounting Office, Aug. 10, 1984 (Rpt. No. GAO/HRD-84-2) p. 8-10.

[3] Estimates on number of children served by child care food program from Department of Agriculture.

[4] Data from Internal Revenue Service.

[5] Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means, p. 419.

[6] Estimated.

The following is a brief discussion of the major day care programs, including eligibility criteria for participation; program goals; number and characteristics of children served; inter-relationships with other programs; and possible impact on poor children.

DAY CARE: HEAD START

Head Start was established under the authority of the Economic Opportunity Act of 1964. The program was originally intended to help improve the social and learning skills, and the nutrition and health status, of low-income children before they entered school. A part of the War on Poverty, it was formulated to give low-income children a "head start" in life, to assist them to catch up with peers experiencing economic, health, and social advantages. Though the program has undergone changes, the goals of Head Start are still basically the same. Head Start is authorized through FY86 under the Head Start Act of 1981, as amended.

Head Start is a matching grant program. The funds are allocated as follows: each State is allocated the amount it received in FY 1981; any funds remaining are distributed to the States, one-third according to the State's number of AFDC recipients aged 18 or under and two-thirds according to each State's number of children aged 0–5 living in poverty. The funding formula requires that 13 percent of Head Start appropriations be reserved for Indian and migrant programs; payments to the territories; training and technical assistance; and discretionary payments.

Federal regulations require that at least 90 percent of the children enrolled in each Head Start program be from low-income families (defined as below the official OMB poverty line or, if the family income exceeds the poverty guidelines, receiving public assistance). At least 10 percent of the enrollment opportunities in Head Start programs in each State must be made available for the handicapped. The following table shows the Head Start funding obligations and number of children served from 1965–1984 (estimated).

TABLE 19.—HEAD START FUNDING OBLIGATIONS AND PARTICIPATION, FISCAL YEARS 1965–84

Fiscal year	Funding obligations (millions)		Total children served
	Current dollars	Constant 1984 dollars	
1965	96.4	317	561,000
1966	198.9	641	733,000
1967	349.2	1,091	681,000
1968	316.2	956	694,000
1969	333.9	963	635,000

TABLE 19.—HEAD START FUNDING OBLIGATIONS AND PARTICIPATION, FISCAL YEARS 1965–84—Continued

Fiscal year	Funding obligations (millions)		Total children served
	Current dollars	Constant 1984 dollars	
1970	325.7	887	435,000
1971	360.1	932	420,000
1972	376.3	941	379,000
1973	400.8	963	379,000
1974	[1] 392.2	865	379,000
1975	441.0	876	349,000
1976	454.5	843	349,000
1977	472.9	815	322,000
1978	622.6	1,003	391,400
1979	680.8	994	387,500
1980	736.3	946	376,300
1981	814.2	942	384,000
1982	[2] 912.0	983	384,000
1983	[2] 912.0	949	393,000
1984	[2] 996.0	996	[3] 430,149

[1] Original appropriation was $407.6 million. Rescission of $15.4 million.
[2] Head Start appropriation.
[3] Estimated.

DAY CARE: CHILD CARE FOOD PROGRAM

Another Federal program funding child day-care related services aimed at the needy population is the child care food program, authorized under section 17 of the National School Lunch Act. Under this program, States are reimbursed at a set rate for meals and snacks provided children at participating child care centers. Higher, free or reduced price rates are provided for meals or snacks served at no charge or at considerably reduced-prices to children whose family income meets certain income criteria. To qualify for free meals or snacks, the family's income level cannot exceed 130 percent of the OMB poverty level; to qualify for reduced-price meals and snacks, the income cannot exceed 185 percent of the OMB poverty guideline. The program is also available in family day care centers to children without any income restrictions. The family day care centers receive standard meal reimbursements based on the type of meals served. The payment rates are slightly lower than those provided for free meals and snacks in child care centers.

All handicapped children and children under age 12 (age 15 if the children are migrants) are eligible to participate in the child care food program. The vast majority of the children served are between the ages of three and five years. The program has grown considerably since its inception. In FY69, the average daily participation (peak month) was nearly 40,000 children and program expenditures were $1.1 million. In FY84, the estimated average daily participation (peak month) exceeded one million children and program expenditures were nearly $357 million. Table 20 shows the number of free, reduced-price, and paid meals provided and the average daily participation in the child care food program for FYs 1983 and 1984.

TABLE 20.—CHILD CARE FOOD PROGRAM

[In thousands, peak month]

	Daily participation
Child care centers:	FY83
Free	426
Reduced	72
Paid	148
Family day care homes	319
Child care centers	FY84
Free	480
Reduced	82
Paid	167
Family day care homes	360

Source: U.S. Department of Agriculture.

DAY CARE: SOCIAL SERVICES BLOCK GRANT

Child day care services have been one of the largest categories of expenditures under the social services block grant program (title XX of the Social Security Act). Federal spending for child day care services under title XX represented approximately 21 percent of total expenditures of $3.0 billion under the program in fiscal year 1979.[47] Exact expenditures for child day care under the program are unknown because of the discretionary nature of the funds. However, a recent GAO study indicates that child day care expenditures from all sources by States surveyed appear to be increasing slightly.[48] The HHS data based on pre-expenditure reports from the States indicate that the number of States using title XX funds for child day care appears to have been decreasing since fiscal year 1982.[49] The exact nature of child care services provided under this category is unknown and may vary from State to State.

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[47] Background Material and Data on Programs Within the Jurisdiction of the Committee on Ways and Means, p. 411, 419.

[48] States Use Several Strategies to Cope With Funding Reductions Under Social Services Block Grant, p. 23.

[49] Social Services Block Grant Pre-Expenditures Reports, fiscal year 1984, p. 19.

DAY CARE: INCOME TAX CREDIT

The largest single source of support for day care services for persons regardless of income is through indirect funding provided under the Internal Revenue Code. This provision allows a tax credit to families with children under age 15 for the costs of dependent care costs. The available credit is 30 percent for taxpayers with incomes of $10,000 or less. The credit is reduced by one percentage point for each $2,000 of income between $10,000 and $28,000. Expenditures are limited to $2,400 for one dependent and to $4,800 for two or more. The Internal Revenue Service estimates that approximately $1.5 billion was "spent" for tax credits for dependent child care in calendar year 1982. A total of slightly more than 5 million families received the benefits that year. Of these, approximately 10,700 were families with incomes below $5,000; and approximately 280,000 had annual incomes of between $5,000–$10,000. These two income categories received approximately $75 million or about 5 percent of the money used for tax credits in calendar year 1982.

Child-care programs under WIN and other AFDC-related child care programs are discussed in Chapter VI of this paper.

DAY CARE AND CHILDREN'S POVERTY STATUS

Head Start was designed to be a long-range program resulting in social change. It was not intended to immediately affect the poverty status of participating children, and there are no comprehensive data on the impact of Head Start on poverty. However, evaluations of the project and related pre-school programs suggest that participation may reduce some of the factors attendant to poverty status. For example, following some negative findings by a Westinghouse study in 1969,[50] a number of studies were conducted on the effectiveness of Head Start and similar preschool programs which found that: Head Start produced gains in intelligence, cognitive development, and academic achievement for children who participated in the full year program.[51] The studies also generally agreed that participation in Head Start resulted in improved health and social behavior, and that the program had a positive impact on the parents of Head Start children and the communities where the programs are located. The study results, taken as a whole, suggest that Head Start may improve the quality of life for many of the participating children and their parents. A recent longitudinal study of a similar preschool program (the Perry Preschool Project) suggests that these changes are carried over into the children's adult lives.[52]

Commenting on studies done of various preschool experiences between the 1950s and 1977, the Congressional Budget Office (CBO) noted that "there is considerable evidence that well-planned day care and preschool programs can have a substantial positive effect on the development and experiences of children from low-income families."[53]

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[50] The Impact of Head Start: An Evaluation of the Effects of Head Start on Children's Cognitive and Affective Development. Executive Summary. Ohio University, Westinghouse Learning Corporation. 1969.

[51] For a list of related studies see U.S. Library of Congress. Congressional Research Service. The Head Start Program—History, Legislation, Issues and Funding—1964-1982. [by] Jean Yavis Jones and Jan Fowler. CRS Report No. 82-93 EPW, Jan. 17, 1979 (updated May 10, 1982). p. 21-34.

[52] Berrueta-Clement, John R. and others. Changed Lives. The Effects of the Perry Preschool Program on Youths Through Age 19. Ypsilanti, Michigan, High/Scope Educational Research Foundation, 1984.

Child day care services, in general, have not been developed to reduce the poverty level of children. However, the need for such services, particularly for single-parent families (which have been increasing), has been increasingly stressed in recent years. It is argued that child day care services can indirectly benefit the income status of the family by allowing an adult who would be the caretaker to enter or increase the amount of time in the job market. However, comprehensive data are not available on the extent to which existing Federal programs—except for the IRS program—serve low-income families or the effect of the availability of day care services on poverty status. CBO has noted study results that indicated that the majority of female family heads who could not work because of unavailability of child care had incomes under $5,000/year and were eligible for child care subsidies of some sort.[54] However, there are no definitive data on whether the lack of child care opportunities constrain labor force participation.

The effect of Federal subsidies for child care food may, like Head Start, provide nutritional and health-related benefits affecting low-income children participating (see discussion of evaluations under child nutrition programs) but would not be expected to change their poverty status. However, there are no data on the effect of such programs on the poverty status of children.

VII. Medical Services

MATERNAL AND CHILD HEALTH SERVICES BLOCK GRANT

The Maternal and Child Health Services block grant provides health services to mothers and children, particularly those with low income or limited access to health services. The purposes of the block grant include, among others, reducing infant mortality, reducing the incidence of preventable disease and handicapping conditions among children, and increasing the availability of prenatal, delivery, and postpartum care to low-income mothers.

States determine what services to provide with the block grant. Services can include prenatal care, well-child clinics, immunizations, vision and hearing screening, dental care and family planning. They may also include inpatient services for crippled children, screening for lead-based poisoning, or counseling for parents of sudden infant death syndrome.

By law, between 85 and 90 percent of the maternal and child health block grant appropriation is allotted to States to provide health service under the block grant. Between 10 and 15 percent is reserved under a set-aside for special projects that are federally administered. In FY 1983, 85 percent of the block grant appropriation of $478 million was allotted among States. Each State's allotment is based on the proportion of total funding it received in FY 1981 under certain categorical programs now consolidated under the block grant program. These programs were maternal and child health programs and crippled children's services, Supplemental Security Income services for disabled children, lead-based paint poisoning prevention, sudden infant death syndrome, and adolescent pregnancy. For each $4 in Federal funds States receive, they must spend $3 of their own funds.

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[53] U.S. Congress. Congressional Budget Office. Child Care and Preschool: Options for Federal Support. Wash., U.S. Govt. Print. Off., Sept. 1978. p. 34.

[54] Ibid., p. 50.

In FY 1983, 15 percent of the block appropriation was reserved under the Federal set-aside for maternal and child health special projects of regional and national significance, research and training, and genetic disease and hemophilia programs. These programs are federally administered.

Eligibility criteria under the block grant are set by the States. States are not allowed to charge for services provided to mothers and children whose incomes fall below the poverty level.

ADDITIONAL HEALTH PROGRAMS

Several other health programs affect poor children although they were established for a broader group. They include programs concerning family planning, childhood immunization, Indian health, migrant health, Appalachian health, and community health centers. Two block grants—one for alcohol, drug abuse, and mental health; and another for preventive health and health services—directly affect children. The National Institute of Child Health and Human Development, one of the National Institutes of Health, conducts and supports research on the reproductive, development, and behavioral processes that determine the health of children.

VIII. CHILD SUPPORT

CHILD SUPPORT ENFORCEMENT PROGRAM

Divorce, separation, and unmarried parenthood have pushed the number of children in single-parent families to unprecedented heights, as shown in Chapter III. Of the 14.0 million such children in 1984, 12.6 million, or 90.2 percent, were in fatherless families, and more than half were poor. Most of the poor women raising children alone never receive child support awards. Moreover, those who are awared child support rights must assign them to the State in order to receive assistance from the AFDC program.

The Child Support Enforcement Program established in 1975 (Public Law 93-647), provides services to both AFDC and non-AFDC families to locate absent parents, establish paternity, and help establish and collect court-ordered and administratively-ordered child support payments. The program is administered by State child support enforcement agencies under the general direction of the Federal Office of Child Support Enforcement. Federal fund pay 70 percent of the cost, and State funds the remainder.

Effective October 1, 1985, a new child support law (P.L. 98-378) requires States to adopt three measures of collecting overdue child support payments: withholding an amount from wages, withholdng an amount from State income tax refunds (for States with income taxes), and imposing liens against property of delinquent parents. The new law emphasizes serving non-welfare children as well as

AFDC children. Further, it permits establishment of paternity until a child's 18th birthday.[55]

POTENTIAL IMPACT OF CHILD SUPPORT COLLECTING ON CHILDREN'S POVERTY [56]

Of the 8.4 million female-headed families with children under age 21 whose father was alive but absent in 1981, 41 percent never were awarded child support rights (nor had an agreement to receive child support payments) and, thus, did not have their own earnings or other income supplemented by required payments from the father. For poor mothers, the proportion without child support awards was even higher, 60 percent. Thus, it appears that unless child support obligations are established for a much larger proportion of the nation's poor children, full payment of child support probably will have a relatively small impact on poverty rates.

Almost 5 million women with children under age 21 (59 percent of all such women) were awarded child support or had an agreement to receive child support payments, but only 4 million (48 percent) of the women were actually "supposed to receive" child support in 1981. The rights of the remaining 11 percent were no longer in force because the father who owed payments had died, the children had grown past the age of eligibility for payments, or because of another such reason.

Many of the women who were awarded child support payments did not receive the full amount they were due. Only about one-half (47 percent of the 4 million women owed child support payments received the full amount in 1981, about 25 percent of the women receive less than they were owed, and 28 percent received no payment at all (see chart 1). The average amount of child support for women who receive payments in 1981 was $2,106, about 18 percent of their average total income; for poor women the average payment was $1,440, about 34 percent of their total income.

In 1981, about 2.6 million (31 percent) of the 8.4 million women with children by an absent father had incomes below the poverty level. Of these women, only 31 percent (806,000) had agreements to receive child support and were due payments in 1981, and the remaining 60 percent were never awarded payments (see chart 1).

Comparing the amount of child support received by poor women who were due payments with the amount that they would have received if full payments had been made shows that if these women had received all the payments they were owed, only 109,000 of them (approximately four percent) would have received enough income from child support payments to put them above the poverty level.

This assumes that none of those poor women was a recipient of AFDC. It is important to point out that in 1981 slightly more than three million female-headed families received AFDC payments. For those receiving AFDC, child support payments in 1981 made no direct contribution to their total income. This is because AFDC mothers are required to assign their child support rights to the State as a condition of eligibility for aid, and before October 1, 1984, no part of collections made by the State went to the child's family unless it was large enough to disqualify the family for AFDC.

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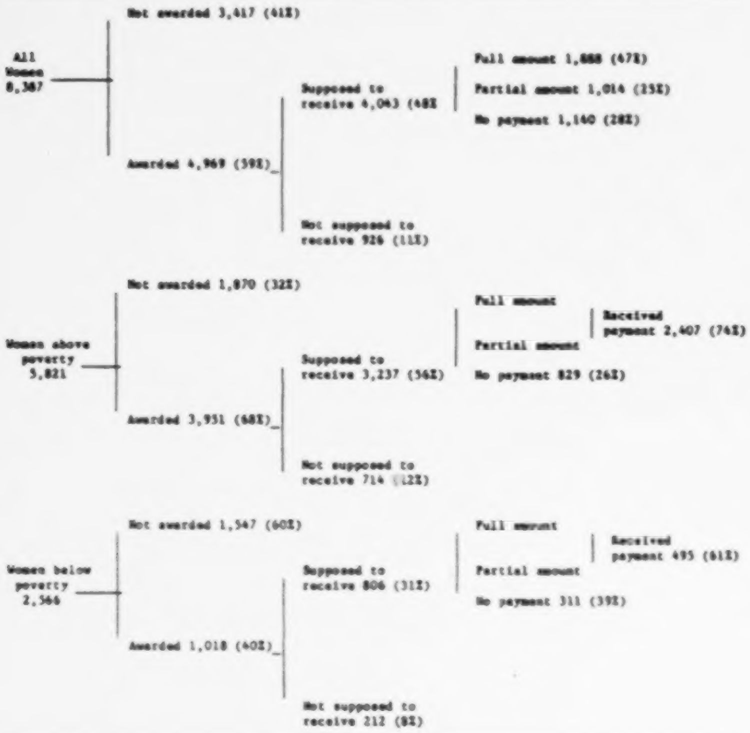
[55] For more information on the 1984 Amendments, see Child Support Amendments of 1984 [by] Margaret Malone. Oct. 25, 1984. Congressional Research Service. Report No. 84-796 EPW.

[56] Data source for this discussion of 1981 child support collections is U.S. Bureau of Census. Current Population Reports. Series P-23, No. 124. Child Support and Alimony: 1981 (Advance Report).

CHART 1. Child Support Payments to Women Above and Below the Poverty Level in 1981
(in thousands)


Not awarded 3,417 (41%)
All Women 8,387
Full amount 1,888 (47%)
Supposed to receive 4,043 (48%
Partial amount 1,014 (25%)
No payment 1,140 (28%)
Awarded 4,969 (59%)
Not supposed to receive 926 (11%)
Not awarded 1,870 (32%)
Full amount
Received payment 2,407 (74%)
Women above poverty 5,821
Partial amount
Supposed to receive 3,237 (56%)
No payment 829 (26%)
Awarded 3,951 (68%)
Not supposed to receive 714 (12%)
Not awarded 1,547 (60%)
Full amount
Received payment 495 (61%)
Women below poverty 2,566
Supposed to receive 806 (31%)
Partial amount
No payment 311 (39%)
Awarded 1,018 (40%)
Not supposed to receive 212 (8%)

Source: U.S. Bureau of the Census. Current Population Reports. Series P-23, No. 124. Child Support and Alimony: 1981 (Advance Report). Prepared by CRS.

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NEW CHILD SUPPORT BONUS FOR AFDC MOTHERS

The Deficit Reduction Act of 1984 (P.L. 98-369) requires that the first $50 in child support collected on behalf of an AFDC child in any month be paid to the family as an addition to their AFDC grant. Previously if the child support collection made by the State was insufficient to make the family ineligibe for AFDC, the family received its full AFDC grant but no child support. The child support collection was used to reimburse the State and Federal Governments in proportion to their assistance to the family.

TRENDS IN CHILD SUPPORT COLLECTIONS

The number of families for whom child support collections were made by State child support enforcement agencies passed the one-million mark in 1982 and again in 1983, as table 21 shows, collections exceeded $2 billion for the first time in 1983, $1.1 billion on behalf of non-AFDC families. Adjusted for price inflation, collections rose 26 percent during 1977 to 1983, from $1,607.6 billion in 1977 (in 1983 dollars) to $2,022.3 billion in 1983. Collections on behalf of non-AFDC families averaged $2,265 per case in 1983. Collections of child support owed to AFDC children averaged $1,480.

TABLE 21.—CHILD SUPPORT COLLECTIONS, 1977-83

Fiscal year	Number of cases for which collections were made (millions)		Total collections (millions)	
	AFDC	Non-AFDC	AFDC	Non-AFDC
1977	423.2	441.1	$472.4	$578.3
1878	458.4	248.6	471.6	575.1
1979	463.1	223.8	596.5	736.3
1980	502.6	243.5	603.1	874.5
1981	547.7	325.3	670.6	958.3
1982	597.2	448.1	786.1	984.9
1983	594.6	504.3	880.2	1,142.1

Source: Annual reports to Congress of the Office of Child Support Enforcement. 1977 data, Third Annual Report, 1978 data, Seventh Annual Report, 1979-1983 data, Eighth Annual Report.

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APPENDIX C. FEDERAL EMPLOYMENT AND TRAINING PROGRAMS*

HISTORY OF PROGRAMS

The recent history of Federal employment and training programs dates back to 1961, with enactment of the Area Redevelopment Act. Primarily an economic development program for depressed areas, this measure also provided a limited amount of job training. Persistently high unemployment rates led to passage of the Manpower Development and Training Act (MDTA) of 1962, which authorized a broader array of training services and allowances primarily for experienced workers displaced by automation. As jobless rates among white males began to fall, however, the employment and training needs of the economically disadvantaged, youth and minorities moved closer to the forefront.

The Johnson Administration's declaration of a "war on poverty" and passage of the Economic Opportunity Act (EOA) of 1964 reoriented employment and training programs toward a new policy goal: reduction of poverty. Under the EOA and MDTA, a wide variety of programs designed to combat poverty were created, including work experience and training programs specifically targeted on the poor, minorities and youth. By the late 1960s, there was a proliferation of such programs, supplemented in 1971 by public service employment under the Emergency Employment Act. The perceived need to streamline and coordinate these activities led to enactment in 1973 of the Comprehensive Employment and Training Act (CETA), which absorbed many of the existing work and training programs and created a new delivery system designed primarily at the local, rather than the Federal, level. The focus on the economically disadvantaged persisted under CETA.

Early amendments to CETA greatly expanded the public service employment component of the program, which eventually grew to dwarf the training programs. In response to high recessionary unemployment rates, eligibility criteria for these new public service jobs were broader than those of the original CETA. A major new title focused specifically on disadvantaged youth was added to CETA in 1977, with passage of the Youth Employment and Demonstration Projects Act. This title authorized a variety of experimental approaches to combatting the persistent problem of high youth unemployment rates.

CETA was substantially amended again in 1978, when the public service employment titles were more specifically focused on the economically disadvantaged, rather than the temporarily unemployed. Also in 1978, the Revenue Act authorized the Targeted Jobs Tax Credit as an [illegible]rivate employers to hire members of certain disadvantaged target population groups, including welfare recipients and economically disadvantaged youth. This tax credit replaced a previous New Jobs Tax Credit, which had no specific targeting provision, and a previous credit for hiring certain welfare recipients.

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* Karen Spar wrote this history

Congress created the Job Training Partnership Act (JTPA) in 1982, to replace CETA with a new private sector-oriented training program for economically disadvantaged adults and youth. Public service employment was eliminated as a program activity, and separate funding for youth was replaced by a requirement that local areas spend at least 40 percent of their overall allotment on programs serving low-income youth. In another major change from CETA, JTPA placed strict limits on the amount of income support and supportive services available to program participants.

The following table shows aggregate Federal spending for employment and training programs from 1968 to 1983. Programs in the table include those discussed in this appendix: the Manpower Development and Training Act; certain employment and training programs under the Economic Opportunity Act; the Emergency Employment Act; the Comprehensive Employment and Training Act; and the Job Training Partnership Act.

TABLE 1.—EXPENDITURES FOR MAJOR FEDERAL EMPLOYMENT AND TRAINING PROGRAMS, 1968-83

[In millions]

	Current dollars [1]	Constant dollars
1968	$973	$2,826
1969	1,074	2,976
1970	1,063	2,781
1971	1,163	2,893
1972	2,309	5,544
1973	2,384	5,503
1974	1,670	3,538
1975	3,122	5,956
1976	5,029	8,958
1977	5,671	9,395
1978	9,532	14,750
1979	9,445	13,247
1980	8,860	10,942
1981	7,700	8,561
1982	3,772	3,905
1983	4,048	4,048

[1] Of the amounts listed above, the following expenditures were for public service employment: 1972, $962 million; 1973, $1,239 million; 1974, $281 million; 1975, $1,040 million; 1976, $2,442 million; 1977, $2,836 million; 1978, $5,764 million; 1979, $5,041 million; 1980, $3,696 million; 1981, $2,387 million; 1982, $38 million for closeout costs; 1983, $45 million for closeout costs).

Source: U.S. Department of Labor; Federal budget documents.

IMPACT ON CHILDREN IN POVERTY

The impact of Federal employment and training programs on poor children can be examined in two ways. First, many participants in such programs are low-income parents, whose children may benefit in the long-term from the increased employability of their parents and in the short-term from their parents' increased income from public service jobs or training allowances. Second, young people themselves have been the direct beneficiaries of many employment and training programs, including Job Corps and Neighborhood Youth Corps, the youth title of CETA, and programs under JTPA, which include continuations of previous programs such as Job Corps and the Summer Youth Employment Program. Some of these programs have served youth as young as 14 to 15 years old.

MANPOWER DEVELOPMENT AND TRAINING ACT

An examination of MDTA classroom trainees during the period from 1963 to 1973 shows that 63 percent were poor, with incomes below the poverty line. Of MDTA participants during that period, almost 14 percent were youth under the age of 19 and almost 25 percent were between the ages of 19 and 21. More than half of the MDTA classroom trainees were heads of households (56 percent), about 41 percent were women, and 13 percent were welfare recipients.[1] No comprehensive national data are available showing the percentage of MDTA participants who had children. However, an early sample of 1,400 participants in MDTA classroom training, who terminated from the program between June of 1964 and February of 1965, found that 56 percent of respondents reported having no children, while 16 percent had one child, 19 percent had two or three children, and the remainder had four children or more.[2]

Benefits from participating in MDTA training, in terms of increased earnings, time employed and hourly wage rates, were greatest among the disadvantaged participants. "Nevertheless," an analysis of MDTA found, "the average disadvantaged enrollee was not raised out of poverty . . . the trend was simply from deep in the depths of poverty to near its upper ranges." [3] In the 10 years from 1963 through 1973, MDTA served a total of 2.3 million individuals, of whom almost two-thirds were enrolled in classroom training and about another third were in on-job-training.[4]

ECONOMIC OPPORTUNITY ACT

To the classroom and on-job-training programs provided under MDTA, the Economic Opportunity Act added several new initiatives such as the Neighborhood Youth Corps (NYC), the Job Corps, and work experience and training. The original NYC consisted of part-time jobs for youth in school and full-time jobs for out-of-school youth aged 16 to 20. The in-school component eventually was made available to youngsters aged 14 and 15, in addition to older youth, and a summer jobs component also was added. This summer program operates today as title II-B of the JTPA.

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[1] Manpower Report of the President, Government Printing Office, Wash., D.C., 1974, p. 362.

[2] National Opinion Research Center. A Nationwide Evaluation of MDTA Institutional Training Programs. University of Chicago, Oct. 1966, p. 17.

[3] Mangum, Garth and John Walsh. A Decade of Manpower Development and Training. Olympus Publishing Company, Salt Lake City, Utah, 1983. p. 34.

[4] Manpower Report of the President, 1974, p. 358.

NEIGHBORHOOD YOUTH CORPS

Between 1965 and 1973, NYC served a total of about 5 million youths, with three-fifths of enrollments in the summer program.[5] Participating youngsters primarily received income in the form of training stipends and work experience, rather than occupational training. Towards the end of the program, its focus shifted toward skill training, supportive services and remedial education. Assessments of NYC found the in-school component somewhat more effective than the out-of-school component in increasing participants' future earnings and employment potential. In general, however, the program did not show significant long-term economic benefits, but instead provided low-income youngsters with income while enrolled in the program and served as a "combination income maintenance and maturation device to help youths stay out of trouble until they are old enough to get a sustaining job or to enroll in a training program." [6]

JOB CORPS

The Job Corps also originated under the Economic Opportunity Act and exists today as title IV-B of the JTPA. Primarily a residential skill training and remedial education program, Job Corps aims to break the cycle of poverty for extremely disadvantaged youngsters. The most recent evaluation of the program—a study of 1977 Job Corps enrollees up to 4 years after leaving the program—found that Job Corps has been "at least moderately successful" in increasing participants' employment and earnings, improving future labor market opportunities, reducing dependence on welfare assistance, and reducing criminality.[7] Specifically in regard to welfare dependence, the evaluation found a 50 percent reduction in the receipt of Aid to Families With Dependent Children (AFDC) and general assistance and a 10 percent reduction in receipt of food stamps after participation in the program. This reduction in welfare dependence was strongest among females without children and weakest for young mothers.[8]

These positive impacts of Job Corps appeared to persist throughout the 4-year follow-up period, although they varied according to individual participant characteristics. Female participants with children, who constituted the smallest group of participants, showed much less benefit from the Corps than males or females without children.[9] Because of Job Corps' residential nature and the extensive level of services provided, it is a relatively expensive program to operate. However, the latest evaluation estimates that social benefits of the program (including reduction in crime rates as well as economic benefits) exceeded program costs in 1977 by 45 percent.[10] The study found a net reduction of $500 (in 1977 dollars) per Job Corps participant in spending for seven transfer programs during the 4-year follow-up period, including AFDC, Medicaid, general assistance, food stamps, public housing, unemployment insurance and workers' compensation. For participants with children (both male and female), the net reduction in AFDC costs was $23 per participant, and for participants without children, the net reduction in AFDC was $99 per participant. Savings in administrative costs related to the seven transfer programs were estimated at $108 per participant, with administrative costs savings in AFDC estimated at $39 per participant and administrative savings in food stamps estimated at $24.[11] Between 1965 and 1983, almost a million youngsters had enrolled in the Job Corps.[12]

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[5] Ibid., p. 358.

[6] Goldberg, Harriet. Neighborhood Youth Corps. [in] The Impact of Government Manpower Programs. Charles Perry, et al., eds. University of Pennsylvania, 1975, p. 449.

[7] Mathematica Policy Research, Inc. Evaluation of the Economic Impact of the Job Corps Program. Prepared for the U.S. Department of Labor. Sept. 1982, p. iii.

[8] Ibid., pp. 179-80.

[9] Ibid., p. v.

WORK EXPERIENCE AND TRAINING PROGRAM

Training programs for low-income household heads were specifically authorized by title V of the Economic Opportunity Act. The goal of this Work Experience and Training (WET) program was to "expand the opportunities for constructive work experience and other needed training available to persons who are unable to support or care for themselves or for their families." [13] More than 90 percent of participants in the program were heads of households, with an average of more than three children per trainee.[14] Although about 70 percent of WET participants were welfare recipients, more than half of program expenditures were for income maintenance. States were required to establish a "basic needs" level for participants and, in the case of public assistance recipients, to supplement the regular welfare check up to the basic needs level, and, in the case of people not receiving public assistance, to provide the entire basic needs level from title V funds. Participants also received payment for work-connected expenses, such as transportation, work clothes, and meals.

Little data are available to assess the impact of the Economic Opportunity Act's Work Experience and Training Program. In general, however, the program appears not to have greatly succeeded in reducing or ending dependence on welfare. Three out of four participants failed to complete the training or work experience; only a third of program participants found or were placed in jobs; and half the participants continued on public relief after leaving the program.[15] Between 1965 and 1968, the WET program served approximately 278,000 individuals.[16] During 1969, the program was phased out in favor of the Work Incentive (WIN) program for welfare recipients, added to the Social Security Act in 1967 (see chapter VI).

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[10] Ibid., p. vi.

[11] Ibid., p. 224-26.

[12] Job Corps in Brief, fiscal year 1983. U.S. Department of Labor.

[13] Levitan, Sar. Antipoverty Work and Training Efforts: Goals and Reality. Institute of Labor and Industrial Relations, Wayne State University, Michigan, 1967, p. 72.

[14] Ibid., p. 87.

[15] Mangum, Garth. The Emergence of Manpower Policy. Human Resources Institute, University of Utah, 1969, p. 116.

[16] Clague, Ewan and Leo Kramer. Manpower Policies and Programs: A Review, 1935-1975. W.E. Upjohn Institute for Employment Research, Kalamazoo, Michigan, 1976, p. 22.

EARNINGS INCENTIVES FOR WELFARE RECIPIENTS

Also in the original Economic Opportunity Act of 1964, the Federal Government recognized the disincentive to work inherent in the existing public assistance system, which penalized welfare recipients for each dollar of earned income by deducting the entire amount of net earnings from their public assistance payment. Title VII of the Economic Opportunity Act attempted to provide welfare recipients with an incentive to work, by allowing them to add some of their net earnings to their welfare payment. Under this provision, States were required to disregard the first $85 of a person's monthly earnings, plus half the remainder, in determining that person's eligibility and payment level under public assistance programs authorized by the Social Security Act. (For a further discussion of the earnings disregard in Federal public assistance programs, see appendix D.)

EMERGENCY EMPLOYMENT ACT

The Federal arsenal of employment and training programs was supplemented in 1971 by public service jobs, with enactment of the Emergency Employment Act. The program's immediate goal was transitional public service jobs for unemployed and underemployed individuals, but it also gave special consideration to certain target groups, including welfare recipients and youth entering the labor force. Between August 1971 and June 1973, the 2-year emergency program served a total of 404,000 individuals, of which 113,000 were youth in summer programs. Of the total participants in FY 1983, 18 percent were disadvantaged and 14 percent were welfare recipients.[17] The Emergency Employment Act made no special provision regarding the treatment of earnings in public service jobs by recipients of public assistance programs.

COMPREHENSIVE EMPLOYMENT AND TRAINING ACT

The Emergency Employment Act was the precursor to the public service employment component of CETA, enacted 2 years later in 1973. The original version of CETA contained a program of transitional public service jobs for the economically disadvantaged, which was augmented later with a countercyclical program for unemployed people who were not necessarily poor. Although the transitional program was more focused on the disadvantaged than its predecessor under the Emergency Employment Act, less than half (48 percent) of the participants in this program in FY 1975 had incomes below the poverty line. Only 7 percent of total program participants received AFDC, and 9 percent received other forms of public assistance. The countercyclical program was slightly less targeted, with 44 percent of all FY 1975 enrollees below the poverty line, 6 percent AFDC recipients and 8 percent recipients of other forms of public assistance.[18] However, eligibility criteria for both programs were tightened and focused more specifically on the disadvantaged by amendments in 1978. As a result, in FY 1979, 68 percent of the transitional program enrollees were under the poverty line and 86 percent were considered economically disadvantaged, with incomes below 70 percent of the Bureau of Labor Statistics' (BLS) lower living standard. Participation among AFDC recipients had increased to 13 percent of all transitional program participants, and 8 percent of transitional program participants in FY 1979 received other forms of public assistance. In the countercyclical program, 63 percent of FY 1979 participants had incomes below the poverty line, and 86 percent were considered economically disadvantaged. Of total countercyclical enrollees in FY 1979, 12 percent were AFDC recipients and 7 percent received other public assistance.[19]

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[17] Manpower Report of the President, 1974, pp. 153-154.

By FY 1981, which was the last year of public service employment (PSE) under CETA, 94 percent of transitional enrollees and 84 percent of countercyclical enrollees had incomes below the poverty line. Almost 99 percent of transitional enrollees were considered economically disadvantaged, compared with 92 percent of countercyclical enrollees. AFDC recipients constituted almost 20 percent of all transitional program participants and more than 15 percent of all countercyclical program participants. Another 3 percent of enrollees in both programs received other public assistance. About a quarter of enrollees in both programs in FY 1981 were under the age of 22.[20]

In addition to authorizing public service employment, CETA consolidated and absorbed many of the classroom training, work experience, and on-job-training programs previously operated under MDTA and EOA. The training component of CETA also tended to serve more disadvantaged participants as the program grew older. Of trainees in FY 1975, 77 percent had incomes below the poverty line. Of all trainees in that year, 16 percent were AFDC recipients, and 11 percent received other public assistance. By FY 1981, 99 percent of trainees were considered economically disadvantaged, defined as having incomes lower than 70 percent of the BLS lower living standard or 100 percent of the poverty line. AFDC recipients made up 21 percent of all program participants and 4 percent received other public assistance. Of CETA trainees in FY 1981, 45 percent were under the age of 22.[21]

The Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35) made deep cuts in Federal funds for CETA training programs and prohibited further funding of public service employment under CETA after FY 1981.

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[18] National Commission for Employment Policy. Sixth Annual Report to the President and Congress. Washington, D.C., 1980, p. 112.

[19] Ibid., p. 112.

[20] Employment and Training Report of the President. Government Printing Office. Washington, D.C., 1982, p. 30.

[21] Employment and Training Report of the President. Government Printing Office, Washington, D.C., 1976, p. 344. Employment and Training Report of the President, 1982, p. 291.

TREATMENT OF EARNINGS OF WELFARE RECIPIENTS

No special provision was made regarding the treatment of earnings paid to public assistance recipients in CETA public service employment programs. However, public assistance recipients enrolled in CETA training programs were entitled to an incentive allowance for each hour in training, not to exceed $30 per week, which CETA law required States to disregard in computing the trainee's payment levels under public assistance programs.

PARENTAL STATUS OF PARTICIPANTS

No data are available on the extent to which CETA public service jobs and training programs helped lift families with children out of poverty. However, an examination of Table 2, derived from FY 1981 participant data, indicates families with children were in fact significantly affected by CETA programs.

TABLE 2.—SELECTED CHARACTERISTICS OF FISCAL YEAR 1981 PARTICIPANTS IN MAJOR CETA PROGRAMS

[In percentages]

	Training		Transitional public service employment		Countercyclical public service employment	
	Male	Female	Male	Female	Male	Female
Single parents	4	36	3	42	5	37
Parents in two-parent families	17	13	20	14	23	17
No dependents	71	54	64	48	65	52
One dependent	10	20	13	23	12	24
Two dependents	7	14	8	16	9	13
Three to five dependents	10	11	14	12	12	10
Six or more dependents	1	1	1	1	2	0

Source: Compiled from data contained in Employment and Training Report of the President, 1982, tables F-10.3, F-10.7, and F-10.12.

Although most of the male participants were not parents and had no dependents, about half the female trainees and more than half of the female public service employees were parents and, in fact, were more likely to be single parents. It seems reasonable to conclude that a substantial number of poor children were affected by their parents' participation in CETA, particularly when the size of the CETA programs is considered. From the program's beginning in 1975 through 1982, almost 12 million people were served in the main training and Public Service Employment components, of whom more than 5 million were women.[22] Enrollees received certain supportive services, such as day care, in addition to training or subsidized work, and enrollees in the training programs also received allowances generally equivalent to the minimum wage. (For a person with only one dependent, the minimum wage generally has provided an income higher than the poverty threshold.)

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[22] Employment and Training Reports of the President, 1976–1983.

Evaluations of CETA enrollees in fiscal year 1979 for up to 2 years after participating in the program show that, on the average, participants experienced substantial improvements in employment and earnings. These data are not broken down by family status but they do indicate that people with the lowest earnings before participating in the program experienced the largest percentage gains in subsequent earnings (although not necessarily the largest gains in absolute dollars). This group included women, workers under the age of 21, and minorities. Further, these gains were sustained, and in fact increased, over the 2-year period following program termination.[23]

Public assistance dependence also decreased following participation in CETA programs. The percentage of CETA terminees whose families received some form of public assistance dropped from 46 percent in the year before program participation to 36 percent during the second year after termination.[24]

CETA YOUTH PROGRAMS

Although almost half of regular CETA trainees and a fourth of public service employees were under the age of 22, legislation enacted in 1977 authorized a separate title of CETA devoted exclusively to disadvantaged youth. The Youth Employment and Demonstration Projects Act (YEDPA) authorized a variety of experimental approaches to the problem of youth unemployment. Programs authorized by YEDPA included the Youth Employment and Training Program (comprehensive services for youth aged 14 through 21), Youth Community Conservation and Improvement Projects (short-term work experience and skill training for 16- to 19-year-olds), the Young Adult Conservation Corps (employment in conservation projects for unemployed individuals aged 16 to 23), and the Youth Incentive Entitlement Pilot Projects (a demonstration program of guaranteed jobs for 16- to 19-year-olds who promised either to remain in school or to return to school). In addition, pre-existing programs including the Job Corps and Summer Youth Employment Program, eventually were folded into the new CETA youth title.

Youngsters participating in one of the youth programs under CETA received a variety of assistance, including remedial education, pre-employment training, skill training, work experience, subsidized jobs and training allowances. Between 1978 and 1982, almost 2 million youth participated in one of the four major programs authorized by YEDPA, excluding the Job Corps and Summer Youth Employment Program.[25] Earnings or allowances paid to participants in either the Youth Incentive Entitlement Pilot Projects, Youth Community Conservation and Improvement Projects or Youth Employment and Training Programs were specifically disregarded in determining the eligibility of the youth's family for public assistance and in computing the family's payment level, under a provision contained in the youth title of CETA.

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[23] Westat, CIMS Follow-Up Report No. 12: Postprogram Experiences, with Pre/Post Comparisions for Terminees Who Entered CETA During fiscal year 1979. Prepared for the U.S. Department of Labor. Apr. 1984, p. 1-5.

[24] Ibid., p. 1-6.

[25] Employment and Training Report of the President, 1982, p. 310.

An evaluation of participants in two of the YEDPA programs (Youth Employment and Training Programs and the Youth Community Conservation and Improvement Projects) and of individuals under the age of 22 enrolled in the regular training component of CETA found substantial improvement in participants' post-program earnings and employment. Earnings and employment gains continued to increase as much as a year and a half following program termination. The largest percentage increase (although not necessarily absolute increase) was among groups with the lowest pre-program earnings, including females, youth age 17 or younger, and minorities. Improvement in earnings was due primarily to increased employment, rather than increased wages.[26]

In addition to the direct benefits to youth participants in CETA programs, a small number of youth program participants also had children of their own. Of the male participants in FY 1981, 1 percent reported being single parents and another 1 percent were parents in a two-parent family. Of the females that year, 6 percent were single parents and 1 percent were parents in a two parent family.[27]

A separate evaluation of the Youth Incentive Entitlement Pilot Projects found the demonstration had a substantial impact on reducing youth unemployment, particularly among black youth and youngsters aged 15 and 16. One of the goals of the demonstration was to determine the impact of a guaranteed job as an incentive for participants to remain in school or return to school. The program's evaluators suggest that the demonstration showed the willingness to work among disadvantaged youth is in fact very high.[28]

JOB TRAINING PARTNERSHIP ACT

The most recent employment and training program is JTPA, which was enacted in 1982 and officially replaced CETA in 1983. JTPA authorizes many of the same activities provided under CETA with several significant exceptions. Public service employment is prohibited under JTPA and the percent of funds that can be used for income support and supportive services including day care is limited. At least 70 percent of funds must be used for direct training costs. Work experience, a major program activity for youth under CETA, also is sharply limited under JTPA. Funds for serving both economically disadvantaged youth and adults are provided in a single block grant to States and service delivery areas, with the requirement that at least 40 percent of funds in each service delivery area must be spent for youth through the age of 21. Welfare recipients must be served equitably according to their proportion of the eligible population in each service delivery area. Job Corps and the Summer Youth Employment Program continue as separate programs under JTPA.

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[26] Westat, CLMS Follow-Up Report No. 12, p. 1-7.

[27] Employment and Training Report of the President, 1982, p. 310.

[28] Gueron, Judith. Lessons from a Job Guarantee. Manpower Demonstration Research Corporation, New York, p. 20.

RELATIONSHIPS TO WELFARE PROGRAMS

The law provides that any allowances or earnings paid to JTPA participants in training programs, including wages received in on-job-training, must not be counted as income in determining eligibility and payment levels under other programs based on need, except for programs authorized by the Social Security Act. In other words, benefits paid under JTPA to recipients of AFDC, which is authorized by the Social Security Act, are counted in determining eligibility and AFDC payment levels. However, JTPA benefits paid to recipients of other programs based on need, such as food stamps, are disregarded in determining eligibility and benefit levels. An exception applies to dependent children, defined in the Social Security Act as being under the age of 18, whose families receive AFDC benefits. States are permitted to disregard any JTPA benefits, in the form of training allowances or wages, received by dependent children when computing their families' eligibility for, and payment levels under, AFDC. This exception applies to no more than 6 months worth of earned income.

ELIGIBILITY

At the time of JTPA's enactment, there was some concern that certain features of the program, particularly the limits on income support and supportive services, would enable only the least disadvantaged among those eligible for the program to participate. Eligibility requirements are generally the same as those under CETA: at least 90 percent of participants must be economically disadvantaged, defined as members of families receiving public assistance or having incomes no higher than either the Federal poverty income guideline or 70 percent of the Bureau of Labor Statistics' lower living standard.[29]

CHARACTERISTICS OF PARTICIPANTS

Preliminary data available so far from the Labor Department, covering the program's first 6 months of operations, indicate that 94 percent of enrollees are economically disadvantaged and 37 percent are under the age of 22. At the time of application for the program, 42 percent were receiving public assistance, although this category is not broken down by type of public assistance, such as AFDC, food stamps, or general assistance. Among economically disadvantaged participants who have terminated from the program, 72 percent have been placed in jobs. Among program terminees under the age of 22, 70 percent have been placed in jobs, and 66 percent of the public assistance recipients have entered employment. During the program's first 6 months, 415,200 individuals enrolled in the program and 148,200 have terminated.[30] No information is available on the family status of program participants.

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[29] For a family of four, the 1983 Federal poverty income guideline (issued in late February 1984) was $10,200. The lower living standard income level for a family of four, issued in August 1984 by the Department of Labor, ranged from $11,670 in the nonmetropolitan South to $12,390 in the metropolitan West.

[30] Analysis of Job Training Longitudinal Survey Quick Turnaround Data: JTPA Title II-A (October 1983-March 1984). U.S. Department of Labor, Aug. 1984.

The JTPA operates on a program year basis, rather than a fiscal year basis, with program years running from July 1 to June 30. Total appropriations for JTPA's first full program year, from July 1, 1984, to June 30, 1985, are $3.7 billion. Of this total, $1.9 billion is used for the title II-A block grant to States for training the economically disadvantaged, $825 million is available for the Summer Youth Employment Program, and $600 million is provided for the Job Corps. Remaining funds include $223 million for programs for dislocated workers, and about $194 million for various national activities.

EMPLOYMENT TAX CREDITS

In addition to Federal grant programs for training and employing the disadvantaged, tax credits also have been available to private employers for hiring certain individuals.

WIN AND WELFARE RECIPIENT TAX CREDIT

The first of these in recent years was enacted in 1971 and available for hiring AFDC recipients registered with the WIN program. This credit, called the WIN tax credit, was not widely used and was liberalized in 1975 and 1976 to make it more attractive to employers. Also in 1975, a separate credit, called the welfare recipient tax credit, was authorized for employers hiring AFDC recipients, regardless of whether these individuals were registered with WIN. This extended the credit to wages paid for nonbusiness employment (such as domestic work). In 1977 and 1978, another tax credit was made available to employers for any new employees hired. This New Jobs Tax Credit was not targeted on any specific population group.

The WIN tax credit was not widely used and the welfare recipient tax credit was used even less. (Both were replaced in 1981 by the Targeted Jobs Tax Credit.) In general, only about 25 percent of employers hiring WIN registrants who were eligible for the tax credit actually claimed the credit.[31] In FY 1975, of individuals for whom the WIN credit was claimed, 64 percent were female and 36 percent were male, while 92 percent of the individuals for whom the welfare recipient credit was claimed were female and only 8 percent were male.[32] The following table shows the number of certifications issued annually under the WIN tax credit, from 1973 through 1980. As for the separate welfare recipent credit, researchers estimated that its use had been minimal, with only 1,200 certifications issued during the first 15 months.[33] The two credits were combined in 1978.

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[31] IMPACT, Inc. An assessment of WIN and Welfare Tax Credits, Minneapolis, Minn., Mar. 1977, p. xix.

[32] Ibid., p. 27.

[33] Ibid., p. 68.

TABLE 3.—WIN TAX CREDIT CERTIFICATIONS, 1973–83

Fiscal year	Certifications	Fiscal year	Certifications
1973	24,853	1977	35,266
1974	39,788	1978	36,085
1975	26,042	1979	42,713
1976	28,215	1980	52,625

Sources: IMPACT, Inc., An Assessment of WIN and Welfare Tax Credits, Mar. 1977, p. 67; Senate Finance Committee and Joint Committee on Taxation, Background on Tax Incentives for Employment, Apr. 1981, p. 13.

TARGETED JOBS TAX CREDIT

The Revenue Act of 1978 created the Targeted Jobs Tax Credit, which replaced the New Jobs Tax Credit, and in 1981, also replaced the WIN and welfare recipient tax credits. Under current law, eligible TJTC workers include low-income youth aged 18–24, low-income youth aged 16–19 enrolled in cooperative education programs, public assistance recipients, disabled workers in rehabilitation programs, low-income Vietnam veterans and low-income ex-convicts. The credit equals 50 percent of the employee's first $6,000 in wages during the first year, and 25 percent in the second year. Employers also may claim a credit of 85 percent of the first $3,000 in earnings for low-income 16- to 17-year-olds hired for the summer. Of the credits claimed by employers for year-round workers, two-thirds are for young workers (under 24). In general, these youngsters have been less disadvantaged than typical youth participants in other Federal employment and training programs, such as CETA and JTPA.[34]

Firms using the TJTC have tended to increase their rate of hiring disadvantaged youth; however, data are insufficient to determine whether the credit has resulted in a net increase in jobs overall, or whether the increased hiring of youth has resulted from displacement of adults.

The following table shows the number of TJTC certifications for each fiscal year since the credit began. Table 5 shows the percent of certifications by target group for FY 1983 and the first three quarters of FY 1984.

TABLE 4.—TJTC CERTIFICATIONS, 1979–84

Fiscal year	Certifications
1979 (six months)	37,020
1980	305,743
1981	411,581
1982	250,316
1983	439,506
1984 (first three quarters)	401,916

Sources: Data prepared by the U.S. Employment Service, Department of Labor, Office of Planning and Review; General Accounting Office letter report (GAO/PAD-83-44), June 8, 1983.

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[34] Congressional Budget Office. The Targeted Jobs Tax Credit. Washington D.C., May 1984, pp. 9, 22.

TABLE 5.—TJTC CERTIFICATIONS BY TARGET GROUP

[In percentages]

	Disadvantaged youth	General assistance recipients	AFDC recipients	Co-op. education students	Summer youth	Other [1]
1983	59	3	12	2	8	17
1984 [2]	59	4	15	1	3	18

[1] Includes low-income Vietnam veterans, low-income ex-convicts, disabled workers in rehabilitation programs, former CETA public service enrollees, and Supplemental Security Income recipients.

[2] Includes only the first three quarters of fiscal year 1984.

Source: Data prepared by the U.S. Employment Service, Department of Labor, Office of Planning and Review.

SUMMARY: IMPACT ON CHILDREN'S POVERTY

It is difficult to determine the success of Federal employment and training programs in reducing or ending poverty of families with children. With a few exceptions, most of the employment and training programs created in the last 20 years have not been designed explicitly as programs to aid poor children, or even poor families, although public assistance recipients have usually been program target groups. Rather, the goal of most of these programs has been to increase the employment and earnings of disadvantaged individuals, regardless of family status. To the extent that these individuals have had children, or been dependent children themselves, their participation in Federal work and training programs has affected, and in most cases increased, overall family income.

The greatest percentage gains in income resulting from employment and training program participation have been among enrollees with the lowest preprogram earnings, primarily women and minorities. However, these gains in income are mostly due to increased employment rather than higher wages. While these participants tend to work more hours after termination from a work or training program, they often are working in low-wage jobs. Depending on their family size, these individuals may still be poor despite the large gains in their income resulting from program participation.

Although billions of dollars have been spent for Federal employment and training programs during the last two decades, these programs have never served a sufficient number of people to make a substantial impact on either unemployment or poverty rates. At the peak of CETA's public service employment program in early 1978, more than 750,000 people were enrolled; however, more than 6 million people were unemployed at that time. Today, JTPA programs are expected to serve about a million people a year, yet more than 8 million people are currently unemployed, and about 35 million people are poor.

Job Corps is one of the few employment and training programs explicitly designed to break the cycle of poverty among extremely disadvantaged youth, by actually removing them from their home environment and placing them in an intensive residential program where they receive remedial education, health and nutrition services in addition to employability development and skill training. However, Job Corps also is the most expensive of all Federal employment and training programs, with an average service-year cost of about $14,000. (Average length of stay in Job Corps is about 6 months; therefore, actual cost per participant is roughly half of the service-year cost.)

Youth employment programs have yielded results similar to programs serving adults; that is, benefits are greatest among participants with the lowest preprogram earnings. However, these programs also have shown that work experience for youth, while not particularly beneficial in the long-term when provided alone, can be extremely useful when coupled with classroom training or when used as an incentive to keep youngsters in school. While by no means the only factor, high school completion does have a significant impact on employment rates. In 1982, white youth aged 16 to 24 who had not completed high school had an unemployment rate of 28 percent, compared with 15 percent for high school graduates, and less than 9 percent for college graduates. Among blacks aged 16 to 24 in 1982, those with less than 4 years of high school had an unemployment rate of 53 percent, compared with 36 percent for high school graduates and 24 percent for college graduates. However, these relatively high rates for blacks, even among high school and college graduates, indicate that lack of education and training only partially accounts for the employment problems of minorities, who are disproportionately poor.

The last 20 years have seen the creation, expansion and, most recently, retrenchment of Federal employment and training programs. While direct job-creation was a major activity in the late 1970s, the only current program specifically intended to create jobs is the Targeted Jobs Tax Credit, although the JTPA places heavy emphasis on unsubsidized job placement. Given the experience of the last 20 years, large numbers of families with children are not likely to be lifted over the poverty threshold through training programs. Although many individuals, often low-income parents and youngsters, have greatly benefited from the programs, these programs have not been operated on a large enough scale to affect poverty rates. And, among those who have benefited the most from program participation, their increased earnings often are not large enough to raise them above the poverty line, although they reduce the severity of their poverty.

APPENDIX D. AFDC AND WORK*

I. Treatment of Earnings

When the Social Security Act was enacted in 1935, AFDC was conceived primarily as aid to enable widows to stay home and care for their children. Society then thought that these mothers neither could nor should work outside the home. The welfare check was to help needy children who had lost their breadwinner, and these fatherless families were expected to have no earnings. The Act was silent on the issue of nonwelfare income available to families of AFDC.

100 PERCENT BENEFIT-LOSS RATE FOR EARNINGS

In 1939 the Social Security Act was amended to require that States "take into consideration any other income of applicants or recipient in determining their aid." Under this provision, welfare agencies had to apply any private income obtained by families on welfare to their support, thus reducing their need for an AFDC grant.

For 23 years, from 1939 to 1962, this rule was in operation. Because of it, one dollar received in gross earnings caused a one dollar cut in the AFDC grant in all States that paid a family's full need. Under the law, a welfare mother's actual income declined by the sum of any work expenses if she went to work in such States. In States that paid less than full need, however, families were permitted to use private income to fill all or some of the gap between the State's maximum payment and the standard of need. For instance, in South Carolina the need standard for an AFDC family of four in 1960 was $134 per month and the maximum monthly AFDC payment for such a family was only $63. The difference of $71 per month could have been met through earnings without a reduction in the amount of the AFDC payment until earnings exceeded $71. The recipient was therefore strongly motivated to work since a relatively substantial amount of additional income could be earned without a reduction in the welfare grant. AFDC mothers in these "fill-the-gap" low benefit States were given strong encouragement to work by the sheer necessity for additional income.

In 1961 Congress opened up AFDC, at State option, to needy families of unemployed parents, who by State definition could include partially employed fathers. This program, first adopted as a temporary anti-recession measure, later was extended and, finally, in 1967 was enacted into permanent law. However, as of December 1984, only 23 States plus the District of Columbia and Guam offered this program. Extension of AFDC to fathers who were unemployed or had part-time jobs made more significant the issue of how to treat earnings of families on welfare.

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* Carmen Solomon wrote this appendix.

DISREGARD OF WORK EXPENSES

Beginning with the 1962 Amendments to the Social Security Act, several disregards of AFDC earnings were enacted, some mandatory, some optional with the States. Effective July 1, 1963, States were required to disregard any expenses reasonably attributable to the earning of wages in the calculation of the AFDC grant. This was to end the financial penalty for taking a job. This rule reflected a new philosophy of rehabilitating welfare mothers through social services and encouraging their self-support.

OTHER DISREGARDED INCOME

The same Act permitted States to set aside any or all of the family's earned or other income for the future identifiable needs of a dependent child. In 1965 States were permitted to disregard the first $50 earned monthly by children under 18, up to a family maximum of $150; about half of the States did so in 1965.

WORK INCENTIVES

National policy to encourage work through incentives began in 1962 but the 1967 Amendments to the Social Security Act greatly extended this policy.

In 1967 Amendments to the Act, Congress made two major changes: it required States, effective July 1, 1969, to disregard 100 percent of the earnings of each AFDC child who was a student and not a full-time worker; and, further, to disregard the first $30 of other family earnings per month plus one-third of the remainder. The second provision was to assure a financial gain from work and to encourage AFDC mothers to take jobs. Added to the provision already in law for mandatory disregard of work-related expenses, the $30 plus one-third disregard rule (often called the "work incentive bonus") enabled an AFDC mother to increase her total income (even if her AFDC grant equalled the State's standard of need) by $30 in earnings, one-third of the remaining earnings, and earnings spent on work expenses.

The work incentive bonus was granted to families already on AFDC. The House Ways and Means Committee said it was withholding this bonus from applicants, unless their net incomes were below the State's standard of need and thus qualified them for AFDC payments, so as to prevent expansion of AFDC caseloads. Said the committee: "One possible result of this provision is that one family, who started out below assistance levels, will have some grant payable to certain earnings levels because of the exemption of later earnings while another family which already had the same earnings will receive no grant." [1]

The committee said it understood the objections that could be raised to its decision, but defended the rules as saving about $160 million yearly and keeping off welfare people with earnings that exceeded their financial need. "In short," the committee summarized, "the provisions . . . are . . . designed to get people off AFDC rolls, not put them on." (emphasis added)[2]

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[1] U.S. Congress. House. Committee on Ways and Means. Social Security Amendments of 1967; report to accompany H.R. 1208. Washington. Govt. Print. Off., 1967. 90th Congress, 1st Session. Report No. 544. p. 107.

Ironically, one result of the earnings disregard was to make it harder to earn one's way off welfare, and more valuable to enroll in AFDC.

1981 CHANGES

In 1981, major changes related to earnings were made in the AFDC program. The Administration maintained that work incentive disregards had not achieved their objective of promoting self-sufficiency since roughly the same proportion (16 percent) of mothers had earnings in 1981 as when the changes were initiated in 1967. The Omnibus Budget Reconciliation Act of 1981 repealed the unlimited disregard of work expenses, substituting a flat $75 monthly standard (prorated for part-time workers), and actual deduction of child care costs up to $160 per child per month. It allowed the work incentive bonus ($30 plus one-third) only during the first four months of employment. The law also established a gross income eligibility limit equal to 150 percent of the State's need standard, and changed the order in which the disregards were to be applied. In effect, the 1981 provisions limited the total income any family could earn and still qualify for AFDC.

1984 CHANGES

In 1984, some of the changes made in 1981 were revised. The Deficit Reduction Act of 1984 increased the AFDC gross income limit to 185 percent of the State's standard of need, required States to disregard the first $75 of monthly earned income for both full and part-time workers, and extended the $30 disregard of monthly earnings from four months to twelve months.

In addition, the Deficit Reduction Act required States to extend Medicaid coverage for 9 months to persons who lose AFDC and Medicaid eligibility because of earnings, provided they would have continued to receive AFDC if one-third of their remaining earnings (the work incentive bonus) were disregarded. States were permitted to add another 6 months of Medicaid coverage for such persons.

IMPACT OF RECENT CHANGES

The following example (table 1) illustrates the impact of past and current welfare policies on a mother working full time at the minimum wage. The example assumes that past policies were in effect in 1984. Assume that the need standard and maximum benefit level are $327 a month (three-person family benefit in median State), and child care costs equal $100 throughout.

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[2] Ibid.

TABLE 1.—AFDC EARNINGS DISREGARD POLICIES, 1962—84 (HYPOTHETICAL EFFECT OF APPLYING PAST POLICIES IN 1984)

	Pre-1962	1962	1969	Policies as in effect on:			
				October 1981		October 1984	
				1st 4 mo	After 4 mo	1st 4 mo	After 4 mo
Gross earnings	$581	$581	$581	$581	$581	$581	$581
Plus EITC				32	32	41	41
Minus disregards:							
Initial disregards			30	(1) (2)	(1) (2)	(1) (3)	(1) (3)
One-third of rest			184				
Child care		100	100				
One-third of rest							
Other expenses		75	75				
Total disregards		175	389				
Total income to count against AFDC benefit	581	406	192				
AFDC benefit	0	0	135				

[1] Ineligible.

[2] The AFDC gross income ceiling that was in effect in October 1981 would have disqualified the 3-person family from continued AFDC eligibility; [$581 + $32 > 1.5 × $327]. If there had been no gross income ceiling, the family would have received an AFDC benefit equal to $55 per month during the first 4 months; nothing after the first 4 months.

[3] Similarly, the gross income ceiling currently in effect would also disqualify the three-person family from continued AFDC eligibility; [$581 + $41 > 1.85 × $327]. If there were no gross income limit, the family would receive $49 per month for the first 4 months; nothing thereafter.

II. WORK PROGRAMS

The 1961 provision extending AFDC benefits to needy children of unemployed parents introduced, for the first time, an identifiable group of employable persons into the federally assisted welfare programs. In 1962, Congress allowed States to require recipients to work in community work and training programs (CWTP) in exchange for their AFDC benefit. Congress saw CWTP as a way of providing useful work for the unemployed parent. The Social Security Amendments of 1967 established a new work program under title IV–C of the Social Security Act to enable as many AFDC recipients as possible to find employment and economic independence. In 1981, Congress gave States the option of setting up work incentive (WIN) demonstration programs, work supplementation programs and community work experience programs.

COMMUNITY WORK AND TRAINING PROGRAM

The community work and training program (CWTP) was established in 1962 to assist States in encouraging AFDC recipients to develop work skills and to help recipients who had been employed previously to maintain their skills.

The CWTP, optional for States, required AFDC recipients aged 18 and older to work off their benefits. In addition to health and safety requirements, CWTPs had to meet a number of other conditions in order to be approved. The payment for work could be not less than the minimum rate established by State law and not less than the prevailing community rate for similar work. The work had to serve a useful purpose and not result in the displacement of regular workers. Work expenses had to be taken into account in determining need and a person could not be denied AFDC if he or she had "good cause" to refuse work.

Although it was expected that the program would be used primarily for unemployed fathers, the statute required that if States made the program available to mothers appropriate day-care arrangements would have to be made for the children while the mother was at work. Before its authorization expired at the end of June 1967, CWTP operated in 13 States.

WIN AND WIN DEMONSTRATIONS

The WIN program was established in 1967 with the purpose of providing skills assessments, job training, and employment placement to help AFDC recipients to become self-supporting. As a condition of AFDC eligibility, persons 16 years of age or older, who are receiving or applying for AFDC, must register for work and training. An individual may be exempt from the work registration requirement if he or she is unable to participate due to illness, incapacity, advanced age, full-time student status, remoteness from a WIN site, the need to care for an ill or incapacitated member of the household, or working at least 30 hours per week. Also exempt is the parent caring for a child under 6 years of age; in a two-parent family, one parent is exempt if the second parent is registered for work.

At the Federal level, the WIN program is jointly administered by the Department of Labor and the Department of Health and Human Services. A dual administrative structure is also in place at the State level, unless the State has elected to operate a three-year WIN demonstration project. These projects, authorized by the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35), permit States to design an alternative to WIN, administered solely by State welfare agencies. The Department of Health and Human Services oversees these demonstrations. By October 1984, 21 States were operating WIN demonstration programs. (See table 2.)

AFDC recipients who are selected for participation in WIN must accept available jobs, training or needed services to prepare them for employment. Refusal to do so without good cause will result in a sanction. In the case of two-parent families, the entire family is made ineligible. In the case of a single parent who refuses to work, payment to the nonworking adult is denied, but protective payments continue for the children. Protective payments are payments to a third party. Usually a relative, neighbor or friend will receive the AFDC benefit check on behalf of the child; sometimes the State caseworker will serve as protective payee.

JOB SEARCH

The Omnibus Budget Reconciliation Act of 1981 permits States to require AFDC applicants and recipients to participate in a program of employment search beginning at the time of application. After an initial 8-week search period for applicants, AFDC recipients may be required to participate in 8 weeks of job search each year. This means that in the first year, up to 16 weeks of employment search may be required, with 8 weeks per year thereafter.

All WIN registrants (and applicants who appear to be WIN eligible) may be required to participate in the job search program. At State option the job search requirement may be limited to certain groups or classes of individuals who are required to register for WIN. Transportation and other necessary costs incurred by participants must be reimbursed; States receive 50 percent Federal matching funds for these costs and may not use the job search requirement as a reason for delaying eligibility determinations or payments to those who are otherwise eligible. An individual who fails to comply with the job search requirement is subject to the sanctions described for the WIN program. Table 2 lists the States that have elected to require job search.

COMMUNITY WORK EXPERIENCE PROGRAM

Under authority granted by the Omnibus Budget Reconciliation Act of 1981, States may operate community work experience programs (CWEP). These programs are commonly referred to as "workfare" and require adult AFDC recipients to perform some sort of community work, such as park beautification or as a teacher aide, in exchange for the AFDC benefit. CWGP is very similar to the 1962 community work and training program (CWTP). The individual does not become a paid employee but, instead, works off the AFDC benefit. The number of hours a person works is equal to their AFDC grant divided by the applicable minimum wage. CWEP participants do not receive the earned income disregards.

States may require CWEP participation by any AFDC recipient who is registered for WIN. However, unlike WIN, which exempts parents with children under the age of 6 from the work requirement, CWEP may require parents caring for children under age 6 (but not under age 3) to participate if child care is available. As of October 1984, 24 States had chosen to implement some kind of community work experience program. Most State workfare programs are not statewide. Table 2 shows which States have CWEPs.

WORK SUPPLEMENTATION AND GRANT DIVERSION

Finally, the Omnibus Budget Reconciliation Act of 1981 also permits States to operate work supplementation programs, in which AFDC may be used to subsidize a job for an AFDC recipient. Under a work supplementation program, States may reduce the need standard and/or revise the earned income disregards and use these funds to subsidize jobs for AFDC recipients. The statute limits Federal funding for an AFDC program that includes a work supplementation component and limits the subsidized jobs to those in public or nonprofit organizations. Because of these restrictions only one State has elected to operate work supplementation programs.

Instead, a number of States have requested and received waivers, under section 1115 of the Social Security Act, which permit them to operate similar programs called grant diversion. In a grant diversion program, States may use the AFDC benefit as a wage subsidy to encourage employers to hire AFDC recipients. Private, for-profit employers may participate in grant diversion. The wage subsidy is for a limited period, usually no more than six months. In early 1984 six States were operating grant diversion programs under this special authority (and without the funding limitations of a work supplementation program).

The Deficit Reduction Act of 1984 modified the work supplementation program to enable States to operate grant diversion programs without the need for a special waiver.

TABLE 2.—STATE PARTICIPATION IN OPTIONAL AFDC WORK PROGRAMS, SEPTEMBER 30, 1984

State	Date WIN demonstration implemented	CWEP	IV-A job search
Alabama		Implemented in 1 county April 1982.	
Arizona	June 1, 1982		
Arkansas	Sept. 30, 1982	Implemented in 1 county September 1982; now WIN Demo.	
California	(*)	Implemented [1] in 1 county July 1982.	
Colorado		Implemented in 1 county October 1982; now operating in 25 counties.	
Delaware	Apr. 1, 1982		
Florida	Apr. 1, 1982		
Georgia	(*)	Implemented in 10 counties August 1982; now operating in 8 counties.	
Idaho		Implemented in January 1982: statewide since April 1982.	
Illinois	July 1, 1982	Implemented in 12 counties in February 1984.	
Iowa	Sept. 30, 1983	Implemented for regular AFDC cases in 5 counties July 1982; currently operating in 49 counties for UP cases.	
Kansas		Implemented in 4 counties May 1983. Currently operating in 9 counties.	Implemented for recipients only May 1983.
Kentucky		Implemented in 2 counties September 1982; phased out December 1982; implemented in 8 counties August 1983.	
Maine	Apr. 1, 1982		Implemented for recipients only January 1983.
Maryland	Sept. 30, 1982		

TABLE 2.—STATE PARTICIPATION IN OPTIONAL AFDC WORK PROGRAMS, SEPTEMBER 30, 1984—Continued

State	Date WIN demonstration implemented	CWEP	IV–A job search
Massachusetts	Apr. 12, 1982		Implemented for applicants and recipients in 16 counties October 1982. Statewide for UP's only.
Michigan	Apr. 1, 1982	Implemented July 1982; now operating statewide.	
Minnesota		In 3 counties March 1983; now operating in 7 counties.	
Nebraska	Sept. 30, 1982		
New Jersey	Oct. 1, 1982		
New Mexico		Implemented[1] in 1 county March 1983.	
New York		Approved[1] January 1982; now operating in 20 counties and in New York City.	
North Carolina		Implemented[1] in 6 counties July 1982; now operating in 8 counties.	
North Dakota		Implemented in 2 counties January 1982; now operating in 12 counties.	
Ohio		Implemented[1] in 4 counties March 1983; now operating in 8 counties.	Implemented for recipients only in 4 counties March 1983; now operating in 8 counties.
Oklahoma	Jan. 1, 1982	Implemented statewide January 1982.	Implemented statewide for applicants and recipients April 1983.
Oregon	Jan. 1, 1982		Operating program with waivers.
Pennsylvania	Sept. 30, 1982	Implemented[1] statewide March 1983 as part of WIN demonstration.	
South Carolina		Implemented[1] in 2 counties May 1982.	

TABLE 2.—STATE PARTICIPATION IN OPTIONAL AFDC WORK PROGRAMS, SEPTEMBER 30, 1984—Continued

State	Date WIN demonstration implemented	CWEP	IV–A job search
South Dakota	Apr. 1, 1982	Approved April 1982 and implemented in 40 counties; now operating statewide.	
Texas	Mar. 4, 1982		Implemented April 1983 for applicants and recipients.
Vermont			Implemented for UP applicants only in April 1983.
Virginia	Jan. 1, 1983	Implemented [1] statewide January 1983 as part of WIN Demonstration.	Implemented statewide January 1983 for applicants and recipients.
Washington		Implemented [1] in 2 counties June 1982.	To be implemented statewide for applicants and recipients in October 1984.
West Virginia	Sept. 27, 1982	Implemented [1] statewide for UP's January 1982; now operating statewide for UP and regular AFDC recipients as part of WIN demonstration.	
Wisconsin	Sept. 30, 1983		

*Approved to begin operation, January 1985.

[1] Denotes CWEP demonstration.

Source: Office of Family Assistance, Social Security Administration.

APPENDIX E. CHRONOLOGY OF CONGRESSIONAL ACTION [1] ON SELECTED MAJOR INCOME BENEFITS [2] FOR CHILDREN (OR FAMILIES WITH CHILDREN): 1960–84*

Year	Law or bill	Income benefit	Description
1961	Executive Order No. 1 (President J. F. Kennedy).	Food stamps	Ordered expansion of distribution of surplus food. In a follow-up special message to Congress, the President directed the Secretary of Agriculture to establish pilot food stamp programs in specified areas for needy families, using general food assistance authority.
1961	P.L. 87–31	Cash relief for needy families of unemployed parents.	Temporarily authorized States to extend Aid to Families with Dependent Children (AFDC) to needy children of unemployed parents (AFDC–UP) and their caretakers under State definitions of unemployment. Earlier the program was limited to families with an absent, disabled, or dead parent. (Note: the program's actual name was Aid to Dependent Children until 1962).
		Foster care for needy children.	Authorized temporary program providing AFDC payments for children placed in foster care as a result of a judicial determination.
1961	P.L. 87–70: Housing Act of 1961.	Rural housing loans for nonfarm families.	Expanded eligibility for Farmers Home Administration (FmHA) direct housing loans to nonfarm rural residents. (Sec. 501 of the Housing Act of 1949)
1962	P.L. 87–510: Migration and Refugee Assistance Act of 1962.	Cash aid and services for needy Cuban refugees and their families.	Authorized 100 percent federally funded aid to Cuban refugees judged needy by State AFDC income standards. Eligible families included intact families with an employed father.
1962	P.L. 87–543: Public Welfare Amendments of 1962.	1. Treatment of earnings of AFDC families.	Required States to deduct only "net" earnings from AFDC check of a working recipient; States were directed to disregard earnings used to pay reasonable work expenses. (Previously States had to deduct 100 percent of gross wages from the welfare grants.) Permitted States to let AFDC recipients keep, with no deduction from the grant, any income set aside for future identifiable needs of a child.

APPENDIX E. CHRONOLOGY OF CONGRESSIONAL ACTION [1] ON SELECTED MAJOR INCOME BENEFITS [2] FOR CHILDREN (OR FAMILIES WITH CHILDREN): 1960-84*—Continued

Year	Law or bill	Income benefit	Description
		2. Work programs for AFDC recipients: Community work and training programs.	Authorized States, with Federal AFDC matching funds, to operate "Community Work and Training Programs" for AFDC recipients, under specified conditions regarding health, safety, work expenses, minimum wage, and the like. This permitted States to require recipients to work off their welfare grant (later known as "workfare").
		3. Cash aid for needy families of unemployed parents.	Extended optional AFDC-UP program for 5 years and permitted Federal matching funds for aid given to second parent (unemployed or disabled) in the home.
		4. Social services for welfare families.	Required that States provide services to AFDC recipients and applicants, as prescribed by the Secretary of Health, Education, and Welfare to prevent and reduce dependency. Increased the Federal reimbursement rate for social services to 75% (previously they were reimbursed at the administrative rate of 50%). Eligible services included day care. The law also authorized child welfare services, including day care, for non-welfare families (Title IV–B of the Social Security Act).
		5. Foster care	Made temporary AFDC foster care program permanent. Extended payments to child welfare institutions (as well as foster family homes) providing foster care.
1962	P.L. 87–823	Free or reduced-price school lunches.	Permanently authorized "special assistance" funds to States for free and reduced-price school lunch programs. States were to give funds only to schools with large numbers of children unable to pay the regular cost of lunches. (The National School Lunch Act, passed in 1946, provided matching funds to States for lunches for all children and required States to serve free or reduced-price lunches to those unable to pay their full cost.)

1963	P.L. 88–4	Income tax deduction for dependent or child care expenses.	Exempted a deserted wife from the income limit imposed on a married wife ($5,100, joint return with husband) for the child care deduction. (This deduction, available to women and widowers, was established by P.L. 83–591 in 1954.) It applied to expenses for a child under age 12, or for a disabled dependent of any age, needed to enable the taxpayer to work. Maximum deduction was $600 yearly, phased out (married couples only) above incomes of $4,500.
1963	P.L. 88–156: Maternal and Child Health and Mental Retardation Planning Amendments of 1963.	Maternal and infant health grants.	Authorized grants to State and local health departments for maternity and infant projects, primarily aimed at reducing mental retardation and infant mortality.
1963	P.L. 88–210: Vocational Education Act of 1963.	Vocational education	Authorized expanded Federal funding for vocational education programs and schools. Included a focus on economically disadvantaged students.
1964	P.L. 88–272: Revenue Act of 1964.	Income tax deduction for dependent or child care expenses.	Raised the age of qualifying child to under 13 and raised the maximum deduction (two or more dependents) to $900 yearly. Extended the deduction to a husband whose wife was institutionalized. Raised the adjusted gross income limit (applicable only to married persons) to $6,600 (1 child) and the phaseout threshold to $6,000.
1964	P.L. 88–452: Economic Opportunity Act.	1. Remedial education and training for low-income youth: Job Corps.	Established Job Corps as a residential program of intensive remedial education and skill training for disadvantaged 16–21-year-olds. Participants received subsistence payments while enrolled and a readjustment allowance upon termination from the program.
		2. Work experience for youth	Authorized work-training programs for unemployed youths aged 16–21 in community service projects.
		3. Part-time employment for low-income college students.	Authorized work-study programs for college students from low-income families. Employment limited to no more than 15 hours per week while student is attending school.
		4. Adult education	Authorized adult basic education for individuals aged 18 and over whose inability to read and write English constitute a barrier to employment.

APPENDIX E. CHRONOLOGY OF CONGRESSIONAL ACTION [1] ON SELECTED MAJOR INCOME BENEFITS [2] FOR CHILDREN (OR FAMILIES WITH CHILDREN): 1960-84*—Continued

Year	Law or bill	Income benefit	Description
		5. Work programs for AFDC recipients: Community work and training programs.	Authorized use of EOA money to fund demonstration Community Work and Training (CWT) programs for AFDC-UP families. EOA regulations liberalized the CWT program by providing supplementary grants to raise a participant's income to his State's AFDC standard of need and by adopting a more generous work expense allowance.
1964	P.L. 88-525: Food Stamp Act of 1964.	Food stamps for needy households.	Established a State-option food stamp program to supplement the food purchasing power of low-income households. Required that recipients pay for their food stamp allotments a sum roughly equal to what surveys indicated was average spending for food. States set eligibility rules. The Federal Government set allotments and purchase price requirements (both of which varied regionally) and paid the cost of bonus stamps.
1964	P.L. 88-641	Age limit for AFDC child	Permitted States to continue AFDC for a child through age 19 if he regularly attended school (as defined by the State) or a vocational or technical training course. (Earlier AFDC could extend only through age 17.) Retained rule that States could not end AFDC eligibility before a child's 16th birthday.
1965	P.L. 89-10: Elementary and Secondary Education Act of 1965.	Compensatory education	Authorized grants to elementary and secondary schools for programs for educationally disadvantaged children. Focused on areas with concentrations of children from low-income families.
1965	P.L. 89-97: Social Security Amendments of 1965.	1. Social security benefits for students.	Extended social security benefits to children (of retired, disabled or dead workers entitled to social security) aged 18-21 who were full-time students.
		2. Age limit for AFDC child (student).	Permitted States to continue AFDC for a child through age 20 if he were a student.
		3. Treatment of earnings of AFDC families.	Permitted States to disregard $50 in monthly earnings of an AFDC child under 18, with family limit of $150. Permitted States to disregard $5 in monthly income from any source to an AFDC family.

		4. Medical care (Medicaid) for welfare families and other specified needy groups.	Authorized matching grants to States to enable them to provide medical services to cash welfare recipients (including AFDC families), known as the "categorically needy," and the "medically needy" (defined as persons meeting all requirements for cash welfare assistance except income). Required State Medicaid programs to serve all children under 21 who were needy by AFDC standards and were in AFDC-type families (1-parent families or 2-parent families with a disabled or unemployed second parent), but who were barred from receiving AFDC cash assistance by State rules about age or school attendance. Permitted States to serve all medically needy children under 21, regardless of family type. Prohibited States from imposing cost-sharing charges for hospital services. Required that charges for other services be reasonably related to income.
		5. Children and youth health grants.	Authorized project grants to States for comprehensive health care services for school age and preschool children, particularly in areas with many low-income families.
		6. Federal funding share for AFDC benefits.	Permitted Status with Medicaid programs to use the Medicaid reimbursement formula for AFDC. This allowed Federal cost sharing in all AFDC benefits. Previous law barred Federal sharing for average benefits above $32 monthly per recipient.
		7. Social services	Extended eligibility for services to "former" and "potential" AFDC recipients.
1965..........	P.L. 89-329: Higher Education Act of 1965.	Postsecondary education student assistance.	Authorized Educational Opportunity Grants (now called Supplemental Educational Opportunity Grants) for students of "exceptional financial need. Also authorized Guaranteed Student Loans and Talent Search, a program to identify and assist qualified economically disadvantaged students to pursue postsecondary education.
1966..........	P.L. 89-642: Child Nutrition Act of 1966.	Special food programs for children.	Authorized the special milk, school breakfast, and nonfood (equipment) assistance programs.
1966..........	P.L. 89-750: Elementary and Secondary Education Amendments of 1966.	Migrant education	Authorized grants to State educational agencies for programs of education for migratory children of migratory agricultural workers.

APPENDIX E. CHRONOLOGY OF CONGRESSIONAL ACTION [1] ON SELECTED MAJOR INCOME BENEFITS [2] FOR CHILDREN (OR FAMILIES WITH CHILDREN): 1960–84*—Continued

Year	Law or bill	Income benefit	Description
1966..........	P.L. 89–754: Demonstration Cities and Metropolitan Development Act of 1966.	1. Rural housing repair loans (Sec. 504).	Increased loan ceiling from $1,000 to $1,500 for loans to owners of farm dwellings who could not qualify for rural homeownership loans (Sec. 502) for repairs to make their dwelling safe, sanitary, and adequate for habitation. (Sec. 504 of the Housing Act of 1949).
		2. Rural rental housing............	Authorized direct and insured loans to profit and nonprofit sponsors to build or repair multifamily rental or cooperative housing for low and moderate income families in rural areas. Loans could be subsidized down to interest rates determined by the Secretary, with maximum repayment period of 50 years. (Sec. 515 of the Housing Act of 1949).
1966..........	P.L. 89–794: Economic Opportunity Act Amendments of 1966.	1. Employment, on-job training, work experience for high school youth.	Authorized Neighborhood Youth Corps, for students in 9th through 12th grade from low-income families, primarily those receiving AFDC.
		2. Preschool services and care: Head Start.	Authorized Head Start, to provide comprehensive health, nutritional, education, social and other services to children in poor families.
		3. Legal services for poor families.	Authorized legal services program for poor persons.
1967..........	P.L. 90–77: Veterans' Pension and Readjustment Assistance Act of 1967.	Cash aid for needy veterans' families.	Made eligible for veterans' pension program needy Vietnam Era veterans who were disabled by nonservice-connected cause and their dependents and, if needy, their survivors. Dependents and survivors included spouses and unmarried children who (1) were under age 18, or (2) before attaining age 18 became permanently incapable of self-support, or (3) were over age 18 but under age 23 and were studying at an approved educational institution.

1967	P.L. 90–222: Economic Opportunity Amendments of 1967.	Special education assistance for children:	
		1. Upward Bound	Authorized Upward Bound program to improve skills and motivation among low-income youth with inadequate secondary school preparation to enable them to succeed in education beyond high school.
		2. Follow Through	Authorized Follow Through programs to give services to kindergarten and elementary school children who had been enrolled in Head Start.
1968[3]	P.L. 90–247: Elementary and Secondary Education Amendments of 1967.	School dropout prevention	Authorized funds for high school dropout prevention projects in local school districts. (Funds were appropriated in fiscal years 1969–1974 and in 1976.)
1968[3]	P.L. 90–248: Social Security Amendments of 1967.	1. Work programs for AFDC recipients: Work Incentive (WIN) Program.	Established the Work Incentive Program (WIN) for "appropriate" persons aged 16 and over in AFDC families. Nearly all AFDC adults were made potentially eligible, including mothers of preschool children, and the Secretary of Labor was required to furnish child care services to them. Provided $30 monthly as an incentive to persons in institutional training or in work experience; this was an addition to the regular AFDC grant. States were to decide what persons were appropriate for WIN assignment, the purpose of which was private sector jobs, training for such jobs, and public service employment. Repealed authorization for Community Work and Training Programs, which had been established under 1962 law.
		2. Treatment of earnings of AFDC families:	
		a. Adults	Required States not to count as income available to reduce the AFDC grant: the first $30 in monthly earnings plus 1/3 of remaining earnings. The fractional disregard required States to phase out benefits for working recipients gradually, by less than 100 percent of extra earnings.
		b. Children	Required States to exempt from welfare deduction all earnings of AFDC children who were full-time students or part-time students working less than full-time.

APPENDIX E. CHRONOLOGY OF CONGRESSIONAL ACTION [1] ON SELECTED MAJOR INCOME BENEFITS [2] FOR CHILDREN (OR FAMILIES WITH CHILDREN): 1960-84*—Continued

Year	Law or bill	Income benefit	Description
		3. Cash relief for needy families of unemployed fathers.	Permanently authorized States to offer AFDC to families of unemployed fathers (and changed the name of the program to AFDC for Unemployed Fathers), disallowed aid to a child needy because of the unemployment of the mother, required the unemployed father to have a substantial work history to qualify for AFDC-UF, required the Secretary of Health, Education, and Welfare (HEW) to define "unemployment."
		4. Emergency Assistance for needy families with children.	Authorized States, with 50 percent Federal funding, to give Emergency Assistance to needy families with children, limited to 30 days per year. Eligible families included two-parent families barred from AFDC.
		5. Child support for AFDC children.	Required States to establish programs to determine paternity of AFDC children and to locate absent parents and secure support from them.
		6. Family planning services for AFDC recipients.	Required States to offer family planning services to "appropriate" AFDC recipients.
		7. Foster care	Expanded eligibility for AFDC foster care and increased the Federal funding share of costs.
		8. Medicaid:	
		a. Screening and treatment for children.	Required States to provide to all eligible persons under 21 early periodic screening, diagnosis and treatment (EPSDT) services under Medicaid.
		b. Income limits, medically needy.	Prohibited States from setting income limits for medically needy coverage above 133-1/3% of their maximum AFDC cash payment for the same size family.
		c. Cost-sharing	Permitted States to impose cost-sharing charges on hospital services for the medically needy.
		9. Maternal and Child Health grants.	Combined Maternal and Child Health and Crippled Children's Services into a single authorization. Required most funds to be used for formula grants to States, rather than for project grants to nonprofit and other public entities.

1968	P.L. 90–448: Housing and Urban Development Act of 1968.	1. Mortgage subsidies (Sec. 235).	Authorized home ownership aid for low or moderate income families (defined generally as having income not greater than 135 percent of maximum permitted for public housing in the area). Established homeowner's mortgage payment at the higher of (1) 20 percent of his income or (2) the difference between debt service on a mortgage at market rate interest and one with an interest rate set by the Secretary of the Department of Housing and Urban Development (HUD), but not below 1 percent. Excluded from income used to calculate mortgage payment: $300 annually per minor child plus any earnings of minor children (still in effect in spring 1984). (Sec. 235 of National Housing Act)
		2. Rental subsidies	Authorized interest reduction payments to reduce debt service on mortgages and hence to decrease rent for rental and cooperative housing for low or moderate income families (defined as for Sec. 235 above). Required the tenant to pay 25 percent of his income as rent, or the "basic" rent, if higher. Excluded from income used to calculate rent: $300 annually per minor child plus any earnings of minor children (still in effect in spring 1984). (Sec. 235 of National Housing Act)
		3. Rural homeownership loans (Sec. 502).	Authorized homeownership aid for low or moderate income families (as defined by Farmers Home Administration [FmHA]) in rural areas who could not obtain credit elsewhere but could afford to repay an FmHA loan. Loan repayment period set at 33 years with a maximum interest rate on direct loans of 5 percent. Subsidy rate based on housing expenses, family income, and family size. "Interest credit" subsidies (authorized under Sec. 521 of the Housing Act of 1949) could reduce mortgage interest rates as low as 1 percent. (Sec. 502 of the Housing Act of 1949)
		4. Rural rental housing (Sec. 515).	Authorized "interest credit" subsidies down to 1 percent for rural rental housing.
1968	P.L. 90–575: Higher Education Amendments of 1968.	Postsecondary education assistance.	Authorized grants to postsecondary education institutions for special services for Disadvantaged Students (such as specially-designed tutoring and counseling programs).

APPENDIX E. CHRONOLOGY OF CONGRESSIONAL ACTION [1] ON SELECTED MAJOR INCOME BENEFITS [2] FOR CHILDREN (OR FAMILIES WITH CHILDREN): 1960-84*—Continued

Year	Law or bill	Income benefit	Description
1969	P.L. 91-152: Housing and Urban Development Act of 1969.	Low-rent public housing	Established a maximum rent for public housing, set at 25 percent of family income.
1969	P.L. 91-172: Tax Reform Act of 1969.	Personal exemption, income tax.	Raised the personal exemption from $600 to $625 in 1970, to $650 in 1971, $700 in 1972, and $750 in 1973. ($600 amount was set in 1954.)
1969	P.L. 91-173: Federal Coal Mine Health and Safety Act of 1969.	Cash benefits for coal miners and their families.	Established cash benefits for coal miners totally disabled by black lung disease and for their dependents and survivors. Dependents included "children," as defined for social security benefits: unmarried and under 18 years; or, if older, disabled (starting before age 18) or a student and under 22.
1969	P.L. 91-177: Economic Opportunity Amendments of 1969.	Preschool services and care: Head Start.	Earmarked specific funding for Head Start. Allowed participation of nonpoor children in Head Start programs.
1970	P.L. 91-248	Free or reduced-price school lunches.	Authorized all schools serving free and reduced-price lunches to receive special assistance funds; required the Secretary of Agriculture to establish uniform national guidelines for eligibility for free or reduced-price meals. Changed State matching requirements for the lunch program.
1970	P.L. 91-588	Cash aid for needy veterans' families.	Made eligible for veterans' pensions Mexican Border period veterans who were disabled by a non-service-connected cause, and their dependents and, if needy, their survivors.
1970	P.L. 91-609: Housing and Urban Development Act of 1970.	1. Low-rent public housing	Excluded from income used to calculate rent (among other items): Income of a full-time student and $300 annually for each dependent.
		2. Rural housing repair loans (Sec. 504).	Increased loan ceiling to $2,500 for repair of rural dwellings and authorized loans of up to $3,500 for repairs involving water supply, or bathroom or kitchen facilities.

1970	H.R. 16311: Passed by House only. Not enacted.	Minimum cash income floor for children.	Proposed "Family Assistance Plan" would have provided a Federal floor under incomes of all families with dependent children, replacing AFDC. The income floor was $1,600 yearly for a family of four. (Bill included a federally prescribed minimum payment of $1,320 per person for needy adults enrolled in State welfare programs for the aged, blind, or disabled.)
1970	S. 3867: Passed by both Houses of Congress. Vetoed by President Nixon. Not enacted.	Employment and training, public service jobs for welfare recipients.	Proposed "Employment and Manpower Act of 1970" would have provided jobs and training for low-income or unemployed persons, including youth. It would have granted automatic eligibility to AFDC recipients.
1971 [3]	P.L. 91-671: Food Stamp Act Amendments of 1970.	Food stamps for needy households.	Established uniform standards for eligibility and benefits. Provided that households could not be required to pay more than 30 percent of counted income for food stamp allotments, which equalled the price of the Economy Food Plan. Required that allotments be adjusted annually for food price changes.
1971	P.L. 92-54: Emergency Employment Act of 1971.	Public service jobs and training.	Authorized jobs and training for unemployed and underemployed persons, including AFDC recipients.
1971	P.L. 92-153	Free or reduced-price school lunches.	Established guaranteed levels of reimbursement for free and reduced-priced lunches.
1971	P.L. 92-178: Revenue Act of 1971.	1. Income tax deduction for dependent or child care expenses.	Raised the age of qualifying child to under 15. Authorized deduction of expenses for household services as well as for care of a child or a disabled dependent, provided they were needed to enable the taxpayer to work on a substantially full-time basis. Raised the maximum deduction (for care in the home) to $4,800 yearly, phased out (for unmarried persons as well as for married couples) above adjusted gross incomes of $18,000, and ending at incomes of $27,600. (Lesser deductions for care outside the home.)
		2. Personal exemption, income tax.	Raised the exemption from $650 to $675 in 1971 and to $750 in 1972 and later years.
		3. Tax credit for hiring AFDC recipients enrolled in WIN.	Authorized a nonrefundable tax credit for employers who hired WIN participants. Credit equalled 20 percent of wages paid to a worker in the first year of work, subject to an overall limit per employer.

APPENDIX E. CHRONOLOGY OF CONGRESSIONAL ACTION [1] ON SELECTED MAJOR INCOME BENEFITS [2] FOR CHILDREN (OR FAMILIES WITH CHILDREN): 1960–84*—Continued

Year	Law or bill	Income benefit	Description
1971	P.L. 92–213: Joint Resolution, Section 9, Public Housing, Rent Reductions.	Low-rent public housing	Prohibited a cut in cash welfare benefits for families whose rent was reduced by the 1969 law setting rent at 25 percent of income.
1971	P.L. 92–223: Social Security Act amendments.	Medicaid	Permitted States Medicaid programs to provide services in intermediate care facilities and defined intermediate care facility services to include services in a public institution for the mentally retarded.
1971	Title IV, H.R. 1: Passed by House only. Not enacted.	Minimum cash income floor for children.	Revised "Family Assistance Plan" would have increased the proposed Federal income floor for families with children (from $1600 in the 1970 House-passed bill to $2400 for a family of four) to compensate for recipients' loss of food stamp eligibility.
1971	S. 2007: Passed by both Houses of Congress. Vetoed by President Nixon. Not enacted.	Day Care	Bill included a grant program for child day care and child development (as new title V of Economic Opportunity Act).
1972	P.L. 92–318: Education Amendments of 1972.	Postsecondary education student assistance.	Authorized Basic Educational Opportunity Grants (later renamed Pell Grants) for needy students. Authorized Educational Opportunity Centers to help low-income students apply to colleges.
1972	P.L. 92–433	1. Free or reduced price school lunches.	Permitted States to set income eligibility ceilings as high as 125 percent and 150 percent of poverty guidelines (prescribed by the Secretary of Agriculture) for free and reduced-price lunches, respectively.
		2. Food for women, infants and children.	Established the special supplemental food program for women, infants, and children (WIC) at nutritional risk.

1972	P.L. 92-603: Social Security Amendments of 1972.	1. Federal cash income floor for disabled or blind children (and aged, blind or disabled adults) (SSI).	Established Supplemental Security Income (SSI) program, providing a Federal minimum income guarantee of $1,560 yearly to persons aged at least 65 and to disabled or blind persons of any age, including children, with resources below specified limits. (Before the program took effect in January 1974, the guarantee was raised to $1,680 by P.L. 93-66.)
		2. Social Security benefits for disabled children.	Extended disabled child benefits to a person aged 22 or older if he became disabled before age 22. (Previous law required the disability to occur before age 18.)
		3. Medicaid:	
		a. Coverage of working families ineligible for AFDC.	Required States to continue Medicaid for four months to a family that lost eligibility for AFDC cash because of increased earnings.
		b. Screening and treatment of children.	Imposed a penalty on States that failed to provide required health screening services.
		c. Mental hospital services for children.	Permitted States to cover inpatient mental hospital services for children under age 21.
		d. Cost-sharing	Permitted States to impose nominal cost-sharing charges on all services for the "medically needy" and "optional services" for the "categorically needy." Mandated the imposition of monthly premium charges on the "medically needy."
1973	P.L. 93-86: Agriculture and Consumer Protection Act of 1973.	Food stamps for needy households.	Required semi-annual adjustment of food stamp benefits and eligibility limits for price inflation. Required nationwide operation of the program by 1975.
1973	P.L. 93-150: National School Lunch and Child Nutrition Act Amendments of 1973.	Free or reduced-price lunches	Permitted States to lift the income ceiling for reduced-price lunches to 175 percent of the poverty guideline. Set specific reimbursement rates (automatically adjusted for inflation) for free and reduced-price meals. Extended eligibility for free milk to children eligible for free lunches.

APPENDIX E. CHRONOLOGY OF CONGRESSIONAL ACTION [1] ON SELECTED MAJOR INCOME BENEFITS [2] FOR CHILDREN (OR FAMILIES WITH CHILDREN): 1960-84*—Continued

Year	Law or bill	Income benefit	Description
1973	P.L. 93-203: Comprehensive Employment and Training Act of 1973.	Comprehensive employment and training, public service jobs.	Incorporated previous employment and training programs for the economically disadvantaged (including welfare recipients), unemployed, and underemployed persons. Included the Job Corps. Provided a training allowance (maximum of $30 weekly, about $130 monthly) and stipulated that welfare agencies must disregard this income of a trainee.
1974	P.L. 93-368	Federal cash income floor for disabled or blind children (SSI).	Provided that SSI benefits would be automatically adjusted annually for price inflation (at the same time and by the same percentage as social security benefits).
1974	P.L. 93-383: Housing and Community Development Act of 1974.	1. Rental subsidies (Section 8).	Authorized aid for "lower-income" and "very low-income" familes, defined as having income below 80 percent and 50 percent of area median family income, respectively, adjusted for family size. Set rent at 15 percent to 25 percent of income, depending, in part, on family size. Reserve 30 percent of units for very low-income families (Section 8 of the United States Housing Act of 1937.)
		2. Low-rent public housing	Established a minimum rent for public housing, 5 percent of gross income. Required that tenant pay rent equal to 25 percent of counted income, or if higher, that portion of its cash welfare payment, if any, designated for housing. Required at least 20 percent of each project's units to go to families with "very low" income (below 50 percent of the area median). Added to 1970 list of items excluded from income used to calculate rent were payments received for foster care of a minor child.
		3. Mortgage subsidies (Sec. 235) and rental subsidies (Sec. 236).	Reduced income limits (from 135 percent of maximum permitted for public housing) to 80 percent of the area median.

		4. Rural housing repair loans (Sec. 504).	Increased loan ceiling to $5,000 for repair of rural dwellings. Authorized loan repayment period of 20 years with repayment conditions set in accordance to the other housing loans, including interest credit loans down to 1 percent.
		5. Rural rental assistance (Sec. 521).	Authorized rental aid to owners of FmHA-financed rental projects to enable them to reduce the rents paid by low income families to not more than 25 percent of their income (Sec. 521 of the Housing Act of 1949). FmHA did not implement.
1974	P.L. 93–567: Emergency Jobs and Unemployment Assistance Act of 1974.	Public service jobs	Authorized emergency public service jobs for unemployed and underemployed persons, with priority for long-term unemployed persons not receiving unemployment insurance.
1975 [3]	P.L. 93–644: Head Start, Economic Opportunity, and Community Partnership Act of 1974.	1. Energy Assistance	Authorized grants for broad array of energy-related services, including home weatherization and "crisis assistance" for low-income households.
		2. Head Start	Established mandatory formula for fund distribution among States, based primarily on relative numbers of AFDC children and children in families with incomes below poverty. Prohibited fees for nonpoor children. Transferred Head Start from OEO to HEW.
1975 [3]	P.L. 93–647: Social Services Amendments of 1974.	1. Child support enforcement	Required each AFDC applicant or recipient to assign her child support rights to the State and to cooperate in identifying and locating the father. Authorized collection of court support orders through the IRS tax collection mechanism and allowed garnishment of Federal employee and military wages and retirement benefits including social security in enforcing child support and alimony obligations (for all families, not only for AFDC families).
		2. Social services	Extended eligibility for social services to non-AFDC type families whose income did not exceed 115% of the State median income, adjusted for family size. Gave States broad discretion in spending social service funds under a new title XX in the Social Security Act. Services were to promote at least one of these goals: self-support or self-sufficiency; protection of children or adults; institutional care where needed; home-based or community care where needed.

APPENDIX E. CHRONOLOGY OF CONGRESSIONAL ACTION [1] ON SELECTED MAJOR INCOME BENEFITS [2] FOR CHILDREN (OR FAMILIES WITH CHILDREN): 1960-84*—Continued

Year	Law or bill	Income benefit	Description
1975..........	P.L. 94-12: Tax Reduction Act of 1975.	1. Refundable tax credit for parents with low earnings.	Authorized one-year refundable credit for parent(s) who supported a child and whose annual earnings were below $8,000. Credit was 20 percent of earnings, up to a maximum credit of $400 annually (phased out between earnings of $4,000 and $8,000).
		2. Income tax deduction for dependent and child care expenses.	Increased the income limit (set in 1971) for deduction of child care expenses in the home to $44,600 (and the phaseout threshold to $35,000).
		3. Tax credit for hiring AFDC recipients.	Authorized a nonrefundable tax credit for employers who hired persons enrolled in AFDC for at least 90 days. Credit equalled 20 percent of wages paid in the first year of work (like the credit for hiring a WIN enrollee). Imposed a general limit of $1,000 per worker on credit for wages paid for nonbusiness employment (such as domestic work).
1975..........	P.L. 94-23: The Indochina Migration and Refugee Assistance Act of 1975.	Cash aid and services for needy Cambodian and Vietnamese refugees and their families.	Authorized 100 percent federally funded aid to Cambodian and Vietnamese refugees judged needy by State AFDC standards.
1975..........	P.L. 94-105: National School Lunch Act and Child Nutrition Act Amendments of 1975.	Reduced-price school meals; WIC.	Permitted States to lift the income ceiling for reduced-price meals to 195 percent of the poverty guideline (from 175 percent level set in 1973), and required schools participating in the national school lunch program to offer reduced-price lunches. Expanded eligibility for WIC.
1975..........	P.L. 94-164: Revenue Adjustment Act of 1975.	Earned income tax credit.........	Required welfare programs to disregard EITC payments as income to recipients. Extended credit through 1976. (Additional one-year extensions were made in 1976 and 1977.)
1976..........	P.L. 94-375: Housing Authorization Act of 1976.	Mortgage subsidies (Sec. 235).	Raised the income ceiling from 80 percent to 95 percent of the area median.

1976	P.L. 94-385: Energy Conservation and Production Act of 1976.	Weatherization aid for low-income households.	Provided 100 percent Federal funding for weatherization help to low-income families, including AFDC families, through grants administered by the Federal Energy Administration (later the Department of Energy).
1976	P.L. 94-401	Day care	Provided special funds to States for child day care services for one year (later extended through 1981). Permitted States to use these 100 percent Federal funds for grants to child care providers for hiring AFDC recipients.
1976	P.L. 94-455: Tax Reform Act of 1976.	Tax credit for dependent and child care expenses.	Replaced the dependent/child care tax deduction with a nonrefundable tax credit and extended it to married couples who combined full-time work (one spouse) and part-time work or full-time schooling (second spouse). Set the credit at 20 percent of expenses up to $2,000 for one child for care in or outside the home, $4,000 for two or more (maximum credit $800 yearly). Permitted credit for payments to any relative not a tax dependent if payments were subject to the social security tax.
1976	P.L. 94-482: Education Amendments of 1976.	Vocational education	Reauthorized and amended the Vocational Education Act of 1963. Strengthened the targeting of funds for economically disadvantaged students; required programs for displaced homemakers, single heads of households who lack adequate job skills, etc. Included a number of provisions to promote sex equity in vocational education.
1976	P.L. 94-566: Unemployment Compensation Amendments of 1976.	1. Cash aid for needy families of unemployed fathers.	Permitted AFDC-(UF) to supplement unemployment insurance. Previous law barred AFDC payments for any week that the parent received unemployment insurance.
		2. Services for needy, disabled or blind children.	Required States to establish plans for medical, social, developmental, and rehabilitative services for disabled or blind children under 16 enrolled in SSI and to make provision for services to preschool children (with SSI funds).
1977	P.L. 95-26: Supplemental Appropriations Act of 1977.	Energy assistance to low-income households.	Authorized payments to companies and fuel dealers to provide fuel to households with incomes at or below 125 percent of the poverty guidelines. (Special Crisis Intervention Program.)
1977	P.L. 95-93: Youth Employment and Demonstration Projects Act of 1977.	Work and training for low-income youth.	Authorized several programs for economically disadvantaged youths (including those in AFDC families): Young Adult Conservation Corps, Youth Incentive Entitlement Pilot Projects, Youth Community Conservation and Improvement Projects, Youth Employment and Training Programs.

APPENDIX E. CHRONOLOGY OF CONGRESSIONAL ACTION [1] ON SELECTED MAJOR INCOME BENEFITS [2] FOR CHILDREN (OR FAMILIES WITH CHILDREN): 1960-84*—Continued

Year	Law or bill	Income benefit	Description
1977	P.L. 95-113: Food Stamp Act of 1977 (Title XIII of the Food and Agriculture Act of 1977).	Food stamps for needy households.	Repealed the requirement that participants pay for stamps. Restricted eligibility by imposing a "countable" income ceiling (100 percent of the poverty guideline) and by limiting allowable deductions from gross income. Established a standard household deduction and a maximum shelter/dependent care expense deduction (both to be adjusted periodically for price inflation). Established an earnings deduction, 20 percent of gross wages. Permitted a limited number of pilot workfare programs, in which recipients were required to work for their benefits.
1977	P.L. 95-128: Housing and Community Development Act of 1977.	Rural rental assistance (Sec. 521).	Required FmHA to implement the rental assistance program, authorized in 1974, which provided that low-income families should not pay more than 25 percent of their income for rent.
1978	P.L. 95-239: Black Lung Benefits Reform Act of 1977.	Cash benefits for coal miners and their families.	Liberalized eligibility rules for those who filed claims after 1973.
1978	P.L. 95-524: Comprehensive Employment and Training Act Amendments of 1978.	Skill training	Established private sector initiative employment and training program for economically disadvantaged, unemployed, and underemployment persons.
1978	P.L. 95-568: Economic Opportunity Amendments of 1978.	1. Experimental job and training projects.	Established program of "Demonstration Employment and Training Opportunities" for low-income unemployed persons, especially youths, welfare recipients, and single heads of households with dependent children.
		2. Head Start	Altered formula for fund distribution, but continued to stress relative numbers of AFDC and poor children.
1978	P.L. 95-588: Veterans' and Survivors Pension Improvement Act of 1978.	Cash aid for needy veterans' families.	Raised benefit levels of veterans' pension program, provided for automatic benefit adjustments for price inflation (at same time and by same percentage as social security benefits) and prescribed stricter income eligibility rules.

1978	P.L. 95–600: Revenue Act of 1978.	1. Tax credits for hiring persons in targeted groups.	Authorized nonrefundable tax credit to employers who hired members of target groups, including economically disadvantaged youth or cooperative education students and SSI recipients. Credit equalled 50 percent of first $6,000 of wages for the first year (maximum of $3,000 per worker) and 25 percent of such wages for the second year. For hiring youths 16 and 17 years old in the summer, the credit equalled 85 percent of the first $3,000 paid (maximum of $2,550). Targeted Jobs Tax Credit.
		2. Tax credit for hiring AFDC recipients.	Increased credit from original 1975 level to 50 percent of first $6,000 in wages paid to a worker in trade or business the first year (maximum credit of $3,000) and to 25 percent of such wages the second year. For non-business wages, credit was raised to 35 percent of first $6,000.
		3. Personal exemption, income tax.	Raised the exemption from $750 to $1,000 in 1979 and thereafter,
		4. Earned income tax credit	Increased the maximum credit to $500 annually (from original 1975 level of $400) and the income limit to $10,000. Made the credit permanent. Authorized advance payments of the EITC, as an addition to the worker's paycheck. Required EITC payments to be treated as "earned" income (and, thus, to reduce welfare benefits).
1978	P.L. 95–627: Child Nutrition Amendments of 1978.	Free school meals; reduced-price lunches; child care food program; WIC.	Raised from 100 to 125 percent of the Secretary's income poverty guideline the income limit for free meals, lowered the reimbursement rate for reduced price lunches, but allowed States charging less than the maximum meal charge to receive an additional reimbursement. Made the child care food program permanent. Extended WIC through FY82 and revised the eligibility criteria.
1979	P.L. 96–126	Energy assistance	Authorized home heating and energy crisis aid for low income households. Energy Crisis Assistance Program.
1979	P.L. 96–153: Housing and Community Development Amendments of 1979.	1. Rental subsidies (Sec. 8) and low-rent public housing.	Authorized HUD increase the maximum rent from 25 percent of counted income (established in 1974) to 30 percent (except for families who moved in before 1980). HUD did not implement.
		2. Rural housing repair loans (Sec. 504).	Increased loan ceiling to $7,500 for repair of rural dwelling.

APPENDIX E. CHRONOLOGY OF CONGRESSIONAL ACTION [1] ON SELECTED MAJOR INCOME BENEFITS [2] FOR CHILDREN (OR FAMILIES WITH CHILDREN): 1960–84*—Continued

Year	Law or bill	Income benefit	Description
		3. Rural homeownership loans, rural rental housing and rural housing repair loans.	Defined "low income" for rural housing as income below 80 percent of the area median, adjusted for family size.
1979	H.R. 4904: Social Welfare Reform Amendments of 1979. Passed by House only. NOT ENACTED.	Minimum cash income floor for children.	Bill would have required States to set AFDC maximum benefits at a level that, in combination with food stamps, equaled at least 65 percent of the poverty threshold.
1980	P.L. 96–212: The Refugee Act of 1980.	Cash aid and social services for needy refugees and their families.	Authorized 100 percent federally funded aid for refugees judged needy by State AFDC standards. Limited aid to, at most, the first three years of a refugee's stay in the U.S.
1980	P.L. 96–223: Home Energy Assistance Act (Title III of Crude Oil Windfall Profits Tax of 1980).	Energy assistance	Authorized non-crisis heating aid, cooling aid when medically needed, and crisis assistance for low-income households and SSI recipients. Set the income limit at the Bureau of Labor Statistics' "lower living standard" income level, which varied by region, unlike the poverty guidelines.
1980	P.L. 96–265: Social Security Disability Amendments of 1980.	Cash aid for needy disabled or blind children.	Expanded SSI eligibility for disabled students by repealing attribution of parent's income and resources to a disabled or blind child 18–20 years old who was a student.
1980	P.L. 96–272: Adoption Assistance and Child Welfare Amendments of 1980.	1. Foster care and adoption assistance for needy children.	Established an adoption assistance program with Federal matching funds for AFDC- or SSI- eligible children with specials needs. Revised foster care program with the aim of preventing unnecessary separation of families.
		2. Day care	Authorized each State to use part of its social services allotment (from Title XX program) for child care without having to add State matching funds.
		3. Child support funds for non-AFDC children.	Permanently authorized Federal matching funds for child support enforcement on behalf of non-AFDC children.

1980	P.L. 96-321	Energy assistance	Authorized home heating and energy crisis assistance for low-income households.
1980	P.L. 96-422: Refugee Education Assistance Act.	Social services for needy Cuban/Haitian entrants and their families.	Authorized 100 percent federally funded social services for certain Cubans and Haitians judged needy by State AFDC standards, and under the same terms as the Refugee Act of 1980.
1980	P.L. 96-499: Omnibus Reconciliation Act of 1980.	1. School lunch program and other child nutrition programs.	Lowered school lunch subsidy rates; reduced reimbursement rates in other nutrition programs; eliminated March update of OMB poverty guidelines used for free and reduced price meal eligibility. Replaced special hardship deduction with standard deduction.
		2. Medicaid for needy families with children.	Included a number of provisions to reduce Medicaid costs. Authorized demonstration projects using Medicaid funds to train AFDC recipients as home health aides.
1980	P.L. 96-611	Age limit for AFDC child (student).	Gave States the option to extend AFDC to children aged 18–20 only if they were high school or noncollege students in vocational training (permitting exclusion of college students.)
1981	P.L. 96-34: Economic Recovery Tax Act.	1. Tax credit for hiring AFDC recipients.	Extended the Targeted Jobs Tax Credit to cover jobs for persons enrolled in AFDC for at least 90 days or WIN participants. Repealed the separate tax credit for hiring AFDC recipients.
		2. Tax credit for dependent and child care expenses.	Increased the credit for those with incomes of $10,000 or less to 30 percent of expenses up to $2,400 for one child, up to $4,800 for two or more children (maximum credit, $1,440). Phased down the credit rate to 20 percent at incomes of $28,000 and above.
		3. Personal exemption income tax.	Provided that $1,000 personal exemption would be adjusted annually for price inflation, beginning in 1985.
1981	P.L. 96-35: Omnibus Reconciliation Act of 1981.	1. Social security benefits for students.	Eliminated student benefits except for full-time elementary or secondary school students under age 19.
		2. Social security benefits for parents.	Eliminated parent's social security benefit upon the child's 16 birthday (formerly, upon the child's 18th birthday).
		3. Earned income tax credit	Required welfare offices to assume that an AFDC family determined to be eligible for EITC was receiving it on an advance basis, regardless of whether it was so paid.

APPENDIX E. CHRONOLOGY OF CONGRESSIONAL ACTION [1] ON SELECTED MAJOR INCOME BENEFITS [2] FOR CHILDREN (OR FAMILIES WITH CHILDREN): 1960-84*—Continued

Year	Law or bill	Income benefit	Description
		4. Treatment of earnings of AFDC recipients.	Limited duration of the work incentive bonus (disregard of the first $30 earned monthly plus one-third of the rest) to the first 4 months of a job and standardized and limited other expense deductions (monthly: $75 standard deduction, plus child care costs up to $160 per child, both subject to reduction for less than full-time work). Imposed a gross income limit, set at 150 percent of the State's standard of need. Imposed a minimum benefit threshold (providing that a family would be ineligible for AFDC unless its benefit equalled at least $10 monthly), but required States to extend Medicaid to such families.
		5. Treatment of resources of AFDC families.	Exempted from countable resources a family's home and (subject to equity value limits) car. Lowered the countable resource limit to $1,000 per family (previous regulations set the limit at $2,000 per family member, but permitted States to count the house and car).
		6. Treatment of AFDC stepparent income.	Required States to count a portion of stepparent income as available to an AFDC child (earlier this was done only in States that made all stepparents financially responsible for their stepchildren).
		7. Age limit for AFDC child.....	Lowered the maximum age for an AFDC child to 18 (with State option to extend to 19 for a high school student).
		8. Treatment of unborn child of needy mother.	Disqualified from AFDC unborn children before third trimester of mother's pregnancy, but permitted States to give Medicaid to a first-time pregnant women from the beginning of verified pregnancy.
		9. Work programs for AFDC recipients:	

a. Community work experience programs (CWEP).	Permitted States to establish Community Work Experience Programs (CWEP), for AFDC recipients, under specified conditions regarding health, safety, minimum wage, and the like. This permitted States to require recipients to work off their welfare grant (workfare).
b. WIN demonstration program.	Authorized WIN demonstration programs, administered solely by State welfare agencies rather than jointly with State employment agencies.
c. Work supplementation program.	Authorized work supplementation programs, in which jobs could be offered as an alternative to AFDC (at reduced grant levels).
10. Cash aid for needy families of unemployed parents.	Renamed AFDC–UF as AFDC for Unemployed Parents (AFDC–UP), but specified that the qualifying unemployed parent must be the principal earner.
11. Food stamps for needy households.	Restricted income eligibility for food stamps, delayed adjustment of benefits for price inflation, reduced the earned income deduction from 20 to 18 percent of gross wages, and permitted States to operate workfare programs for recipients.
12. Medicaid for needy families with children:	
a. Medically needy..........	Repealed requirement that States with programs for the medically needy must offer comparable coverage to all four such groups (aged, blind, disabled, and members of families with children). Required States that offer medically needy coverage to any group to provide ambulatory services to children and prenatal and delivery services to pregnant women. See No. 8 above.
b. Age limit for children.	Permitted States to limit Medicaid coverage of children to those under age 18 (see No. 7 above) or to extend coverage to all aged 18 through 20, or to reasonable classifications within this group.
c. Coverage of needy families ineligible for AFDC.	Required States to give Medicaid to families ineligible for AFDC because of that program's new $10 monthly benefit threshold (See No. 4 above).

APPENDIX E. CHRONOLOGY OF CONGRESSIONAL ACTION [1] ON SELECTED MAJOR INCOME BENEFITS [2] FOR CHILDREN (OR FAMILIES WITH CHILDREN): 1960–84*—Continued

Year	Law or bill	Income benefit	Description
		d. Screening and treatment of children.	Repealed penalty (reduction in AFDC funds) for State failure to inform AFDC families about availability of screening, diagnostic, and treatment services for children or to arrange such services upon request.
		e. Administration and funding.	Gave States more flexibility in program design. Authorized them to provide services by use of designated providers (under a freedom-of-choice waiver). Provided for reductions in Federal cost sharing in Fiscal Years 1982–84.
		13. Maternal and child health grants.	Consolidated into a block grant: Maternal and Child Health Services, Supplemental Security Income services for disabled children, lead-based paint poisoning prevention, genetic diseases, sudden infant death syndrome, hemophilia treatment centers and adolescent pregnancy.
		14. Day care	Reestablished title XX as social services block grant, with no Federal regulations, earmark of funds for day care, or requirement for State funding.
		15. Elementary and secondary education grants.	Consolidated into a block grant numerous categorical programs, including some for disadvantaged students.
		16. School meals; other child nutrition programs.	Lowered income eligibility criteria for reduced-price meals from 195 percent to 185 percent of the poverty guidelines; eliminated standard deductions for free and reduced-price meal eligiblity and set free meal eligibility at the gross income standard for food stamps (130 percent of poverty level). Lowered school lunch and breakfast cash reimbursement rates. Made eligibility changes in child care food program and lowered reimbursement rates.
		17. Rental subsidies (Sec. 8) and low-rent public housing.	Raised family rent to the higher of (1) 30 percent of counted income or (2) 10 percent of gross income, effective immediately for new tenants, phased in for old ones, but retained rule that public housing tenants must pay full sum earmarked for housing in welfare check.

		18. Rental subsidies (Sec. 8).	Reduced share of units that could go to families with income above 50 percent of the area median from 70 percent to 10 percent for re-rentals (5 percent for new rentals).
		19. Low-rent public housing....	Reduced share of units that could go to families with income above 50 percent of the area median from 80 percent to 10 percent for re-rentals (5 percent for new rentals).
		20. Rental subsidies (Sec. 236).	Raised rent from 25 percent to 30 percent of counted income, and continued rule that "basic" rent, if higher, must be paid.
		21. Energy assistance	Authorized payments to low-income and categorically eligible households to help meet weatherization costs, as well as heating and cooling bills. (Low Income Home Energy Assistance Act of 1981, Title XXVI of P.L. 97–35)
1981..........	P.L. 97–119: Black Lung Benefits Revenue Act of 1981.	Cash benefits for coal miners and their families.	Restricted eligibility for those who claimed benefits after 1973.
1982..........	P.L. 97–248: Tax Equity and Fiscal Responsibility Act of 1982.	1. Treatment of AFDC families in shared households.	Permitted States to reduce benefits for shared households by prorating the portion designated for shelter and utilities.
		2. Work rules for AFDC applicants.	Permitted States to require job search of applicants.
		3. Cash aid for needy children of absent servicemen.	Prohibited AFDC to families whose parent was absent solely because of active duty in the uniformed services.
		4. Medicaid for needy families with children.	Barred States from imposing cost-sharing charges on Medicaid services for children under age 18; allowed such charges for persons 18–21. Authorized States to extend home care coverage to certain disabled children who would qualify for Medicaid if they were institutionalized.
1982..........	P.L. 97–253: Omnibus Budget Reconciliation Act of 1982.	Food stamps for needy households.	Reduced maximum benefits by one percent, so as to provide 99 percent of the cost of the Thrifty Food Plan, through fiscal year 1985.

APPENDIX E. CHRONOLOGY OF CONGRESSIONAL ACTION [1] ON SELECTED MAJOR INCOME BENEFITS [2] FOR CHILDREN (OR FAMILIES WITH CHILDREN): 1960–84*—Continued

Year	Law or bill	Income benefit	Description
1982..........	P.L. 97–300: Job Training Partnership Act of 1982.	Job training for low-income persons.	Authorized comprehensive job training services for economically disadvantaged persons. Specified that at least 40 percent of funds must be used for youth. Incorporated several previous programs, including Job Corps and summer youth employment program. Required AFDC(but not other need-tested programs like food stamps and public housing) to count as available income any allowance or earnings paid to JTPA participants, except that it permitted States to disregard such JTPA payments made to AFDC children for a maximum period of six months.
1983..........	P.L. 98–21: Social Security Amendments of 1983.	Federal cash income for disabled or blind children (SSI).	Raised SSI benefits by $240 yearly (7 percent) and deferred 1983 cost-of-living adjustment for six months.
1983..........	P.L. 98–181: Housing and Urban Rural Recovery Act of 1983.	1. Rental subsidies (Sec. 8) and low-rent public housing.	Increased the share of units that could go to families with income above 50 percent of area median from 10 to 25 percent for re-rentals. Excluded from income used to calculate rent (among other items): $480 annually for each household member (except the head or spouse of head) who is under 18 years old or older than 18 and disabled, or a full-time student; $400 for any elderly family; child care expenses needed to permit a family member to work or to further his education. (Both programs previously excluded $300 annually for each child who was under 18 years old or a full time student. Public housing regulations also disregarded dependent care expenses needed to enable the family head or spouse to work.)
		2. Rural homeownership loans, rental housing, and housing repair loans:	Defined 'very low income' for rural housing programs as income less than 50 percent of the area median, adjusted for family size.

		a. Rural home ownership (Sec. 502).	Required that 40 percent of Sec. 502 houses be occupied by very low income families. Lengthened maximum repayment period for Sec. 502 loans to 38 years.
		b. Rural rental housing (Sec. 515).	Required that 75 percent of existing Sec. 515 rental units and 95 percent of new rental units be occupied by very low-income families.
		c. Rural housing repair loans (Sec. 504).	Restricted loans to very low-income families, removed loan ceilings, and authorized the Secretary to determine maximum loan amounts.
		3. Rural rental assistance (Sec. 521).	Increased tenants' rent to the greater of (1) 30 percent of monthly adjusted income (as defined by the Housing Act of 1937, as amended), (2) 10 percent of monthly income or (3) the portion of the family's welfare payment designated for rent.
		4. Rural housing preservation grants (Sec. 533).	Authorized grants to State and local governments and private nonprofit organizations to rehabilitate single-family housing and rental properties affordable to rural low-income home owners and renters.
1983..........	H.R. 1036: Community Renewal Employment Act. Passed by House only. Not Enacted.	Public service employment......	Bill would have provided public service jobs for long-term unemployed individuals, with priority for those who had exhausted their unemployment insurance benefits and lived in families with no other full-time working member.
1984..........	P.L. 98–369: Deficit Reduction Act of 1984.	1. Treatment of earnings of AFDC families:	
		a. AFDC eligibility and size of benefit.	Required States to deduct more earnings from income used to calculate AFDC grant (and, thus to increase benefits to workers) and to treat part-time earnings the same as full-time earnings. Mandatory deductions: first four months of job, $105 monthly plus child care costs (up to ceiling), plus one-third; next 8 months, $105 monthly plus child care costs; thereafter, first $75 monthly plus child care costs. Increased gross income limit from 150 percent to 185 percent of AFDC State need standard.
		b. Medicaid eligibility	See No. 6a below.
		c. EITC...........................	Repealed rule that EITC be deemed available income for AFDC families determined eligible for it.

APPENDIX E. CHRONOLOGY OF CONGRESSIONAL ACTION [1] ON SELECTED MAJOR INCOME BENEFITS [2] FOR CHILDREN (OR FAMILIES WITH CHILDREN): 1960–84*—Continued

Year	Law or bill	Income benefit	Description
		2. Child support for AFDC children.	Required States to "pass through" to the AFDC family $50 monthly in child support collections from an absent parent, and, thus, to increase the family's AFDC grant.
		3. Work programs for AFDC recipients.	Authorized Federal funds for specified work expenses of CWEP recipients.
		4. Cash aid for needy blind or disabled children.	Increased SSI counted assets limit in stages, from $1,500 per person to $2,000 in 1989.
		5. Treatment of nonneedy members of AFDC families.	Generally required States to include (non-SSI) parents and siblings of an AFDC child in the AFDC unit and, thus, to count their income and needs in calculating the grant. (Previously a non-needy relative, such as a child with his own social security survivor's check, could be excluded.)
		6. Medicaid eligibility	
		a. Working families ineligible for AFDC.	Required States to continue Medicaid, with Federal matching funds, for 9 months to families who lost AFDC eligibility because of the expiration of the disregard of one-third of residual earnings after four months of work; permitted States to extend Medicaid another 6 months (15 months in all).
		b. Needy children	Required States to give Medicaid to all children under one year old as of Oct. 1, 1984 (ultimately, to all under five) in families, regardless of structure, with income and resources within AFDC eligibility limits.
		c. First-time pregnant women.	Required States to extend Medicaid to first-time pregnant women who would be eligible for AFDC in their State upon birth of the baby, and to those in two-parent families whose principal breadwinner was unemployed and whose income and resources were within State AFDC eligibility limits.
		7. Earned income tax credit	Raised maximum credit from $500 to $550. Increased eligibility limit to $11,000.

1984	P.L. 98-378: Child Support Enforcement Amendments of 1984.	Child Support	Required States by October 1985 to adopt three measures of collecting overdue child support payments: withholding an amount from wages, withholding an amount from State income tax refunds, and imposing liens against property of the delinquent parent. Permitted establishment of paternity until a child's 18th birthday. Extended incentive payments to States for collections made on behalf of non-AFDC children.
1984	P.L. 98-473	Food stamps for needy families.	Restored the maximum food stamp benefit to 100 percent of the cost of the Thrifty Food Plan (from the 99 percent level adopted in 1982).
1984	P.L. 98-524: Carl D. Perkins Vocational Education Act.	Vocational education	Replaced the Vocational Education Act of 1963. Provided that States must spend specified percentages of their Federal funds for such groups as disadvantaged individuals, adults in need of training and retraining, single parents and homemakers.

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[1] Enactment of laws and passage by either House of Congress of bills proposing major changes.

[2] This chronology concentrates on income-tested programs for children and their families, but includes some non-income-tested benefits, such as Social Security survivors' benefits, that have a substantial impact on poor children.

[3] January.

*Vee Burke compiled this chronology, to which all report authors contributed.

APPENDIX F. THE INCOME DISTRIBUTION[*]

I. THE INCOME DISTRIBUTION [1]

Income distribution can be examined in various ways.[2] These include measuring the shares received by a given percentage of the population (e.g., the top *X* percent of the population received *X* percent of the income), the percent of the population whose income is below the mean or median, and whether the distribution is bell-shaped or deviates from such distribution.

Examining income distribution presents at least three problems.[3] First, income is not always captured by official statistics. For example, taxes, employee fringe benefits, and non-cash social welfare benefits are not included in the analysis, and some cash income and barter income are not reported. Second, there is "nonpecuniary" income, which may be produced in the home by family members or derived from satisfaction on the job. A third problem concerns life-cycle earnings. The basic premise is that earnings change over an individual's lifetime. They are low when an individual is young, tend to be high during prime working years, and drop off again during old age. Consequently, at any single point in time, the distribution of income varies with the age distribution of society. A final difficulty is what Mark Lilla refers to as "income dynamics;" that is, single point in time income distribution fail to provide information on how people or families are moving into and out of certain income categories. Though the income distribution, for example, may appear unchanged from one year to the next, families may have been changing places over the year.

While these are important problems, analysts continue to examine the income distribution at single points in time because better data are not widely available. With this in mind, the present appendix examines family income distributions from 1968 to 1983 by using three measures: the Gini index, quintiles and a complex measure summarizing the shape of the distribution.

II. DATA AND METHODS

In computing Gini coefficients and quintiles among families with children, we imposed several restrictions on the Current Population Survey (CPS). First, we limited the sample to primary and secondary families with children under 18 years of age. Second, we restricted the analysis to families whose incomes were not affected by

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[*] Richard R. Verdugo wrote this appendix except for the last section, which was written by Peter Gottschalk.

[1] Chapter 5 discusses what is meant by an income distribution.

[2] See, for example, F.A. Cowell, Measuring Inequility: Techniques for the Social Sciences. John Wiley & Sons. New York 1977.

[3] See Mark Lilla, "Why the income distribution is so misleading." Public Interest no. 77, Fall 1984. p. 72–76.

"top coding." For confidentiality purposes, the Census Bureau, which conducts the CPS, imposes an upper bound (or "top code") on income. From 1968 to 1979 the CPS used an upper bound of $50,000 or more; beginning with the 1980 CPS, however, the upper bound was changed to $75,000 or more.

Since total family income is composed of income sources with ceilings, the bounds and their changes from 1979 to 1980 presented two problems. On the one hand, we do not know how families in the upper income bracket are distributed. And, on the other hand, the change in the upper income bracket leads to comparability problems between the years before 1980 and the years thereafter.

The strategy we employed in handling these difficulties is discussed below. First, we examined the percent of families in the upper income bracket for CPS years 1971 to 1984. These data are presented in Table 1. As can be seen, there is a dramatic drop in these percents from 1978 to 1979, CPS years 1979 and 1980. Chart 1 presents a graphic representation of the data, and highlights the extreme drop in the percents. Since the largest percent of families in the upper income bracket was 3.6 percent, we eliminated the top 3.6 percent of families (based on family income) in each year from the computation of Gini coefficients and quintiles. Our analysis, therefore, is limited to the first 96.4 percent of families with children.

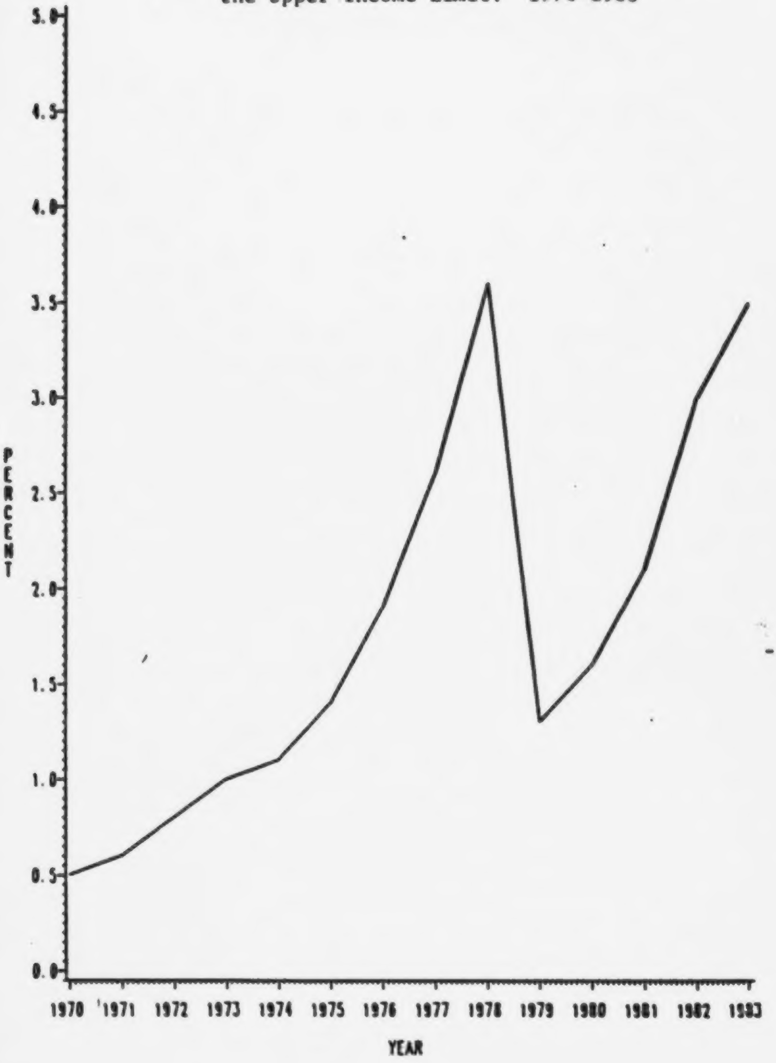
TABLE 1.—PERCENT OF FAMILIES AFFECTED BY THE UPPER INCOME LIMIT: 1970–83[1]

Calendar year	Percent	Calendar year	Percent
1970	0.5	1977	2.6
1971	.6	1978	3.6
1972	.8	1979	[1]1.3
1973	1.0	1980	1.6
1974	1.1	1981	2.1
1975	1.4	1982	3.0
1976	1.9	1983	3.5

[1] From 1979 on, the upper income bracket is $75,000 or more.

CHART 1

Percent Distribution of Families Affected by the Upper Income Limit: 1970-1983



If we had not imposed such a restriction on the data, our summary measures of the income distribution would have been different. For example, table 2 presents Gini coefficients with and without these sample restrictions for CPS years 1969 to 1984. As can be seen, the Gini coefficients we have computed with this restriction tend to be lower than those computed without the sample restrictions. Thus, since lower Gini coefficients mean less inequality, the Gini coefficients used in this report most likely underrepresent inequality among families with children.

III. GINI COEFFICIENTS, QUINTILES, AND A MEASURE OF THE SHAPE OF THE DISTRIBUTION

GINI COEFFICIENTS

The Gini coefficient is a measure, in this case, of income concentration. It is derived from the Lorenz curve. The Lorenz curve is obtained by plotting the cumulative percent of families on the horizontal axis, and the cumulative percent of aggregate family income on the vertical axis. If all families had exactly the same percent of income as their numerical percent in the population, the plot would be represented by a 45 degree line referred to as the "line of equality." However, this is never the case, and plots tend to be fall beneath the line of equality (such a plot is known as the Lorenz curve). The greater the inequality, the greater the area between the line of equality and the Lorenz curve. Chart 2 shows the Lorenz curve and the line of equality for 1983.

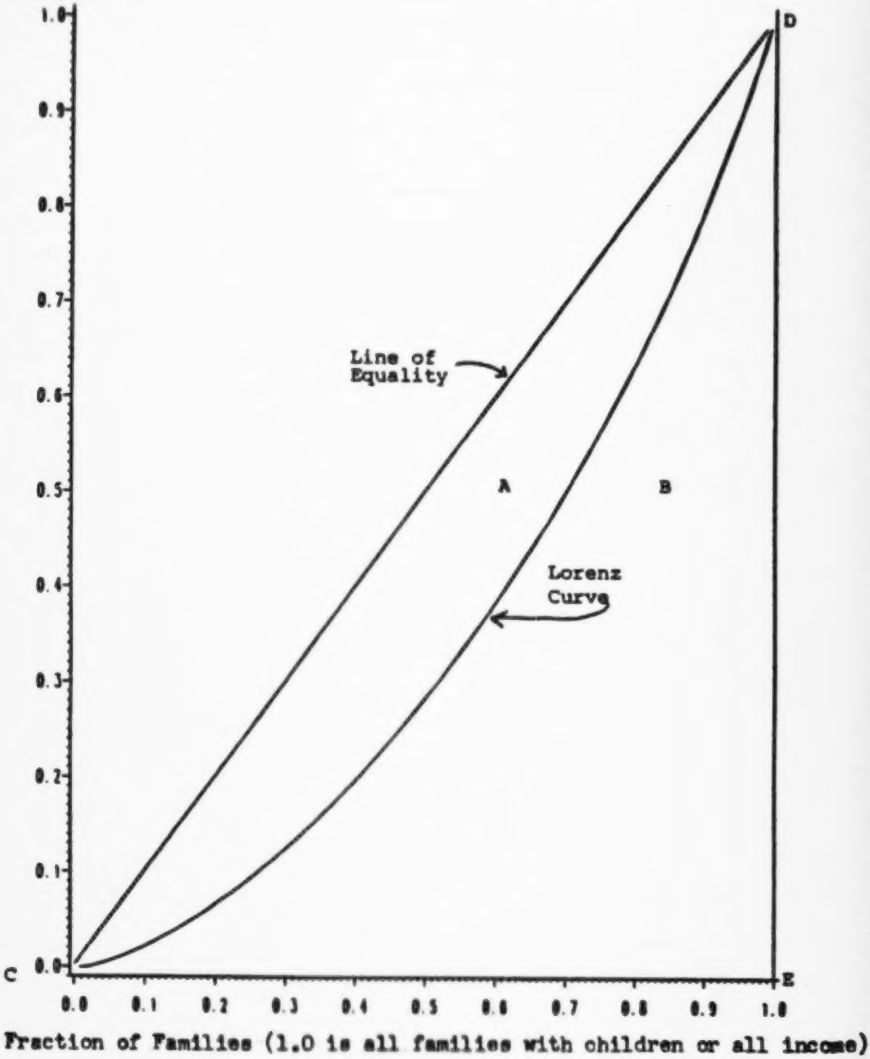
TABLE 2.—GINI COEFFICIENTS: 1969 TO 1983

Year	Gini coefficient (restricted)	Gini coefficient (unrestricted) [1]
1968	0.276	0.308
1969	.273	.302
1970	.278	.308
1971	.283	.311
1972	.298	.326
1973	.293	.319
1974	.298	.321
1975	.294	.323
1976	.272	.301
1977	.276	.302
1978	.275	.299
1979	.263	.285
1980	.274	.292
1981	.287	.312
1982	.300	.327
1983	.303	.333

[1] Computed without excluding the top 3.6 percent of families (based on family income). Figures may differ from published data because the census does not top code income for its reports.

CHART 2

Lorenz Curve and Line of Equality
Among Families with Children: 1983



The Gini coefficient is the ratio of the area labelled "A" to the area under the diagonal as indicated by the area CDE. Another way of expressing the Gini is: Gini=A/A+B. The Gini ranges from 0.0 to 1.0; as inequality increases, the measure moves toward 1.0.

The main problem with the Gini is that income transfers between units (families or persons) have a much greater effect on the Gini if the two units are near the middle rather than at either end of the income distribution. For example, transfering $1 from a family with $1,000 to a family with $999 has a much greater effect on reducing the Gini than transfering $1 from a family with $100 to one with no income.[4]

We computed Gini coefficients for families with children using the March Current Population Surveys for calendar years 1968 to 1983. In addition, the sample restrictions discussed above were imposed because of the "top coding" of income. These data are presented in Table 3.

There are three interesting results here. First, income inequality increased from 1968 to 1983. The Gini in 1968 was 0.276, whereas it was 0.303 in 1983. Second, from about 1974 to 1979 there appears to have been a decline in inequality, as the Gini decreased from 0.298 to 0.263. Third, from 1979, the Gini increased rapidly, with a peak in 1983 of about 0.303.

TABLE 3.—QUINTILES AND GINI COEFFICIENTS: 1968 TO 1983

Year	Quintiles					Gini coefficient
	1st lowest	2d	3d	4th	5th highest	
1968	7.4	14.8	19.5	24.5	33.8	0.276
1969	7.4	14.7	19.6	24.6	33.7	0.273
1970	7.2	14.7	19.4	24.7	34.0	0.278
1971	7.0	14.5	19.5	24.7	34.4	0.283
1972	6.8	14.2	19.5	25.1	34.5	0.298
1973	6.8	14.4	19.5	25.0	34.4	0.293
1974	6.4	14.3	20.6	25.1	34.6	0.298
1975	6.3	13.9	19.6	25.3	34.9	0.294
1976	6.4	13.9	19.7	25.3	34.7	0.272
1977	6.1	13.7	19.5	25.5	35.2	0.276
1978	6.1	13.7	19.5	25.4	35.4	0.275
1979	6.0	13.7	19.5	25.3	35.5	0.263
1980	5.6	13.3	19.5	25.5	36.1	0.274
1981	5.4	13.0	19.4	25.8	36.5	0.287
1982	4.9	12.7	19.1	25.9	37.5	0.300
1983	4.8	12.3	18.9	26.0	38.1	0.303

Source: March current population: 1968–84.

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[4] See F.A. Cowell, Measuring Inequality. Op. cit.

QUINTILES

Quintiles divide an income distribution into five equal parts. The quintile data show the percent of total aggregate family income received by each fifth of the families with children.

Table 3 also presents quintile rankings of family income for families with children from 1968 through 1983. As with the Gini coefficients, the data are from the March Current Population Surveys, and sample restrictions, as discussed above, were imposed.

Results from those computations show that the distribution of family income became less equal over time. There are two points which verify this trend. First, from 1968 to 1983, families in the lowest three quintiles saw their share of aggregate family income decrease. In some cases the decrease was significant. For instance, in 1968 families in the second quintile had about 14.8 percent of aggregate family income, but in 1983 their share dropped to 12.3 percent.

If families in the first to third quintiles experienced decreases in their shares of aggregate family income from 1968 to 1983, some groups must have made substantial gains. Indeed, gains in the share of family income were most significant among families in the fifth quintile. Families in the fifth quintile, for example, had about 33.8 percent of aggregate family income in 1968, but by 1983 this figure had risen to 38.1 percent.

DECOMPOSITION OF THE INCOME DISTRIBUTION

The decomposition of poverty is based on a model developed in Gottschalk and Danziger (1958). The model assumes that the ratio of total income to poverty thresholds has a displaced log normal distribution. Changes in poverty can, therefore, be decomposed into changes associated with changes in the mean and variance of the market income to needs ratio, the mean and variance of the transfer income to needs ratio, the covariance of these two ratios, and the displacement factor. For expositional simplicity these six causes of changes in poverty are reduced to three: changes in each of the two means, holding inequality constant, and changes in inquality. For example, column 1 of Table 5–4 (Chapter V) reflects not only the poverty-decreasing effects of increases in mean market income ratio but also the poverty-increasing effects of increases in the variance, and the effects of changes in the covariance and displacement factor, all of which would result from proportional growth in the market income ratio of each household. The changes in the mean and variance would keep the coefficient of variation constant. Column 3 shows the impact changes in the shape of the distribution that result when the changes in the variance, covariance, and displacement factor differ from what would be consistent with proportional growth in each household's market income ratio and transfer income ratio.

Intuitively, the model predicts how much poverty would have declined if each household had experienced the average increases in market and transfer income to poverty ratios. The difference between the observed change in poverty and this hypothetical change in poverty reflects changes in poverty caused by changes in inequality. The fact that the latter is positive in most of the subperiods (Table 5-5) shows that reductions in poverty were smaller than would have been expected from changes in the average levels of the two income ratios.

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*Gene Falk prepared this bibliography, to which all report authors contributed.

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APPENDIX H. POVERTY RATES BY REGION AND STATE*

This appendix shows data on poverty rates by region for 1975 to 1983, and by State for 1969, 1975, and 1979. Regional poverty rates are from the annual March Current Population Survey (CPS) (table 1). Poverty rates by State cannot be obtained from the annual March CPS—the design of the CPS does not permit State level estimates. The State level poverty rates provided in table 2 come from two sources: 1969 and 1979 data are from the 1970 and 1980 decennial Census of the population; 1975 data are from a special survey of income and education conducted by the Census Bureau.

TABLE 1.—REGIONAL POVERTY RATES FOR RELATED CHILDREN[1] 1975–83

Year	Northeast[2]	Midwest[3]	West[4]	South[5]
1983	19.7	20.8	21.3	23.7
1982	19.7	18.9	19.7	25.1
1981	17.7	16.6	18.0	23.8
1980	15.9	15.7	15.5	22.1
1979	15.5	12.6	13.3	20.4
1978	15.9	11.9	13.1	20.1
1977	15.2	13.3	13.4	20.0
1976	15.1	13.5	13.3	16.6
1975	15.0	12.7	15.8	22.0
Percentage increase:				
1979 to 1983	27.1	65.1	60.2	16.2
1975 to 1983	31.3	63.8	34.8	7.7

[1] All figures are for related children under the age of 18. Figures are estimates and subject to the limitations of the data.

[2] States in the Northeast include: Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, and Pennsylvania, Delaware, and Maryland.

[3] States in the Midwest include: Ohio, Indiana, Illinois, Michigan, Wisconsin, Minnesota, Iowa, North Dakota, South Dakota, Nebraska, and Kansas.

[4] States in the West include: Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, Washington, Oregon, California, Alaska, and Hawaii.

[5] States in the South include: District of Columbia, Virginia, West Virginia, North Carolina, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Arkansas, Louisiana, Oklahoma, and Texas.

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*Richard Rimkunas and Gene Falk prepared this appendix.

TABLE 2.—POVERTY RATES FOR RELATED CHILDREN UNDER AGE 18 BY STATE: 1969, 1975, AND 1979

State/region	Poverty rate			Percent change 1969–79
	1969 [1]	1975 [2]	1979 [2]	
Northeast:				
Connecticut	7.8	9.6	11.4	46.2
Maine	14.5	15.6	15.8	9.0
Massachusetts	8.8	10.8	13.1	48.9
New Hampshire	7.9	10.8	9.4	19.0
New Jersey	9.2	12.5	14.1	53.2
New York	12.7	13.8	19.0	49.6
Pennsylvania	10.9	13.3	13.9	27.5
Rhode Island	11.7	11.3	13.6	16.2
Vermont	11.5	18.2	13.9	20.9
North Central:				
Illinois	11.0	16.1	14.9	35.5
Indiana	9.3	10.0	11.9	28.0
Iowa	10.1	8.5	11.5	13.9
Kansas	12.0	9.2	11.4	−5.0
Michigan	9.4	12.5	13.3	41.5
Minnesota	9.5	9.8	10.2	7.3
Missouri	14.9	15.1	14.6	−2.0
Nebraska	12.2	10.6	12.1	−.8
North Dakota	15.9	11.7	14.3	−10.1
Ohio	10.0	13.2	13.2	32.0
South Dakota	18.9	14.6	20.0	5.8
Wisconsin	8.9	10.4	10.4	16.9
South:				
Alabama	29.3	18.4	23.6	−19.5
Arkansas	31.3	22.7	23.4	−25.2
Delaware	12.3	10.7	15.6	26.8
District of Columbia	23.1	17.1	27.0	16.9
Florida	19.2	21.3	18.5	−3.6
Georgia	24.1	22.4	21.1	−12.4
Kentucky	24.9	21.4	21.6	−13.3
Louisiana	30.0	23.9	23.5	−21.7
Maryland	11.5	10.8	12.5	8.7
Mississippi	41.3	32.8	30.4	−26.4
North Carolina	23.6	18.3	18.3	−22.5
Oklahoma	19.7	16.0	15.7	−20.3
South Carolina	28.7	23.9	21.0	−26.8
Tennessee	24.6	20.5	20.6	−16.3
Texas	21.7	20.6	18.7	−13.8
Virginia	18.0	13.8	14.9	−17.2
West Virginia	24.3	20.2	18.5	−23.9

TABLE 2.—POVERTY RATES FOR RELATED CHILDREN UNDER AGE 18 BY STATE: 1969, 1975, AND 1979—Continued

State/region	Poverty rate			Percent change 1969–79
	1969 [1]	1975 [2]	1979 [3]	
West:				
Alaska	14.7	7.5	12.1	−17.7
Arizona	17.9	18.7	16.5	−7.8
California	12.7	14.6	15.2	19.7
Colorado	12.7	11.2	11.5	−9.4
Hawaii	10.3	10.5	13.0	26.2
Idaho	12.7	11.8	14.3	12.6
Montana	13.3	13.6	13.8	3.8
Nevada	9.1	11.8	10.0	+9.9
New Mexico	26.7	26.1	22.1	−17.2
Oregon	10.8	9.8	12.0	11.1
Utah	10.6	9.1	10.7	.9
Washington	9.8	10.8	11.5	17.3
Wyoming	11.8	9.6	7.7	−34.7
U.S. total/rate	15.1	15.3	16.0	6.0

[1] Source: U.S. Bureau of the Census. Statistical Abstract of the United States: 1984. Table 783, p. 475. Washington DC. 1984.

[2] Source: Survey of Income and Education. Unpublished Data.

[3] Source: U.S. Bureau of the Census. Statistical Abstract of the United States: 1984. Table 783, p. 475. Washington DC. 1984.

APPENDIX I. SUPPORT TABLES FOR CHARTS IN REPORT*

Support Table for Chart 2.1

COMPARISON OF POVERTY THRESHOLDS AND FEDERAL INCOME TAX THRESHOLD FOR A FAMILY OF FOUR: 1965–82[1]

Year	Poverty threshold	Federal income tax threshold	Difference[2]
1965	$3,223	$3,000	+$223
1966	3,335	3,000	+335
1967	3,410	3,000	+410
1968	3,553	3,000	+553
1969	3,743	3,000	+743
1970	3,968	3,600	+368
1971	4,137	3,750	+387
1972	4,275	4,300	−25
1973	4,540	4,300	+240
1974	5,038	4,300	+738
1975	5,500	6,692	−1,192
1976	5,815	6,892	−1,077
1977	6,191	7,533	−1,342
1978	6,662	7,533	−871
1979	7,412	8,626	−1,214
1980	8,414	8,626	−212
1981	9,287	8,634	+653
1982	9,862	8,727	+1,135

[1] Tax threshold assumes a family of four using standard deductions and taking the earned income tax credit. Note that this is a comparison of thresholds and the difference does not indicate the degree of tax liability. It should also be noted that low income families are likely to be subject to other taxes beside Federal income tax. Taxes such as State income tax, and payroll taxes are examples. The difference between the Federal income tax threshold and the poverty threshold will vary with different size families.

[2] A plus sign indicates a year in which the Federal income tax threshold is below the poverty threshold; a minus sign indicates years in which the tax threshold is above the poverty threshold.

Source: U.S. House of Representatives, Subcommittee on Oversight and Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means. Background Material on Poverty, p. 146.

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*Thomas Gabe and Richard Rimkunas prepared the data tables in Appendix I.

Support Table for Chart 2.2

COMPARISON OF POVERTY RATES BY AGE AND FAMILY STATUS: 1983

Category	Total (in thousands)	Poor (in thousands)	Poverty rate
Children	62,140	13,807	22.2
Aged adults in families with children	1,231	249	20.2
Nonaged adults in families with children	8,169	13,821	15.5
Aged	26,291	3,711	14.1
Nonaged adults	143,182	17,749	12.4
Aged adults in families without children	16,469	1,190	7.2
Nonaged adults in families without children	54,013	2,945	5.5

Source: March 1984 Current Population Survey. Estimates prepared by Congressional Research Service. All figures are estimates and subject to assumptions used in their calculation, and limitations of the data.

Support Table for Chart 2.3

TOTAL AND POOR POPULATION BY AGE: 1983

Age group	Total		Poor	
	Number (in thousands)	Percent	Number (in thousands)	Percent
Children	62,140	26.8	13,807	39.2
Nonaged adults (18 to 64)	143,182	61.8	17,749	50.3
Aged adults (65+)	26,291	11.4	3,711	10.5
Total	231,291	100.0	35,267	100.0

Source: March 1984 Current Population Survey. Estimates prepared by Congressional Research Service. All figures are estimates and subject to assumptions used in their calculation, and limitations of the data.

Support Table for Chart 2.4

RELATIONSHIP OF FAMILY INCOME TO POVERTY THRESHOLD FOR POOR CHILDREN AND ADULTS: 1983

	Children (under 18)		Adults (18 and older)	
	Number (in thousands)	Percent	Number (in thousands)	Percent
Family income:				
Less than 50 percent of poverty threshold	5,943	43.1	7,640	35.6
Between 50 percent and 74 percent of poverty threshold	4,105	29.7	5,922	27.6
Between 75 percent and 100 percent of poverty threshold	3,759	27.2	7,898	36.8
Total	13,807	100.0	22,460	100.0

Source: March 1984 Current Population Survey. Estimates prepared by Congressional Research Service. All figures are estimates and subject to assumptions used in their calculation and limitations of the data.

Support Table for Chart 2.5

COMPARISON OF POVERTY RATES FOR CHILDREN BY RACE AND FAMILY TYPE: 1983

Family makeup	Total (in thousands)	Poor (in thousands)	Poverty rate
White married couples	41,962	4,924	11.7
All married couples	47,907	6,321	13.2
White children	50,628	8,778	17.3
All children	62,140	13,807	22.2
Black married couples	4,198	964	23.0
Black children	9,380	4,384	46.7
White female heads of households	7,478	3,559	47.6
All female heads of households	12,591	7,024	55.8
Black female heads of households	4,794	3,283	68.5

Source: March 1984 Current Population Survey. Estimates prepared by Congressional Research Service. All figures are estimates and subject to assumptions used in their calculation and limitations of the data.

Support Table for Chart 2.6

COMPARISON OF POVERTY RATES FOR ALL CHILDREN BY MARITAL STATUS OF PARENT AND RACE: 1983

	White		Black	
	Number (in thousands)	Percent	Number (in thousands)	Percent
Never married	519	71.3	1,223	77.2
Separated/divorced	2,655	47.3	1,732	66.8
Widowed	267	27.9	384	60.7
Married, spouse absent	160	52.4	41	46.6

Source: March 1984 Current Population Survey. Estimates prepared by Congressional Research Service. All figures are estimates and subject to the assumptions used in the calculation and limitations of the data.

Support Table for Chart 2.7

COMPOSITION OF CHILD POVERTY POPULATION BY RACE AND FAMILY TYPE: 1983

Family type	White		Black		Other	
	(In thousands)	Percent	(In thousands)	Percent	(In thousands)	Percent
Female head	3,616	41.2	3,215	73.3	186	28.8
Male present	5,163	58.8	1,089	24.8	459	71.2
Total	8,778	100.0	4,384	100.0	645	100.0

Source: March 1984 Current Population Survey. Estimates prepared by Congressional Research Service. All figures are estimates and subject to the assumptions used in their calculation and limitations of the data.

Support Table for Chart 2.8

ALL CHILDREN AND POOR CHILDREN BY MARITAL STATUS OF PARENT: 1983

Marital status of parent	Total (in thousands)	Percent	Poor (in thousands)	Percent
Married, spouse present	48,524	77.2	6,414	46.0
Married, spouse absent	450	.7	231	1.7
Widowed	1,878	3.0	744	5.3
Separated/divorced	9,324	14.8	4,654	33.4
Never married	2,692	4.3	1,901	13.6

Source: March 1984 Current Population Survey. Estimates prepared by Congressional Research Service. All figures are estimates and subject to data limitations and assumptions used in their calculation.

Support Table for Chart 2.9

COMPARISON OF OVERALL POVERTY RATE AND POVERTY RATE FOR RELATED CHILDREN: 1959–83

Year	Overall (total population)	Related children [1] (under 18)
1959	22.4	26.9
1960	22.2	26.5
1961	21.9	25.2
1962	21.1	24.7
1963	19.5	22.8
1964	19.0	22.7
1965	17.3	20.7
1966	14.7	17.4
1967	14.2	16.3
1968	12.8	15.3
1969	12.1	13.8
1970	12.6	14.9
1971	12.5	15.1
1972	11.9	14.9
1973	11.1	14.2
1974	11.2	15.1
1975	12.3	16.8
1976	11.8	15.8
1977	11.6	16.0
1978	11.4	15.7
1979	11.7	16.0
1980	13.0	17.9
1981	14.0	19.5
1982	15.0	21.3
1983	15.2	21.7

[1] Children living in a family with a relative. The child is under 18 years of age and is not the head or spouse of the family.

Source: U.S. Department of Commerce, Bureau of the Census, Characteristics of the Population Below the Poverty Level: 1983. Series p. 60, No. 147 and Characteristics of the Population below the Poverty Level: 1978 P. 60, No. 124.

Chart 3.1

Tables 3-3 and 3-4 in text provide the estimates used to construct Chart 3.1. These estimates are based on data derived from the decennial Census.

Support Table for Chart 3.2

PERCENTAGE DISTRIBUTION OF CHILDREN BY FAMILY TYPE: 1959–83

Year	Male present[1]	Female head
1959	91.2	8.8
1960	90.7	9.3
1961	90.7	9.3
1962	90.5	9.5
1963	89.9	10.1
1964	89.7	10.3
1965	90.0	10.0
1966	89.6	10.4
1967	89.1	10.9
1968	88.4	11.6
1969	88.7	11.3
1970	87.8	12.2
1971	86.2	13.8
1972	85.7	14.3
1973	84.6	15.4
1974	84.1	15.9
1975	83.2	16.8
1976	82.9	17.1
1977	82.0	18.0
1978	82.5	17.5
1979	82.1	17.9
1980	81.3	18.7
1981	80.3	19.7
1982	80.3	19.7
1983	80.4	19.6

[1] Male-Present families include both married couples and single parent male-headed families.

Source: U.S. Department of Commerce, Bureau of the Census. Series P–60. "Characteristics of the Population Below the Poverty Level." Selected years.

Support Table for Chart 3.3

POVERTY RATES [1] FOR RELATED CHILDREN BY FAMILY TYPE: 1959–83

Year	Female head	Overall	Male present
1959	72.2	26.9	22.4
1960	68.4	26.5	22.3
1961	65.1	25.2	21.0
1962	70.2	24.7	19.9
1963	66.6	22.8	18.0
1964	64.3	22.7	18.2
1965	64.2	20.7	15.7
1966	58.2	17.4	12.6
1967	54.3	16.3	11.5
1968	55.2	15.3	10.2
1969	54.4	13.8	8.6
1970	53.0	14.9	9.2
1971	53.1	15.1	9.3
1972	53.1	14.9	8.6
1973	52.1	14.2	7.6
1974	51.5	15.1	8.3
1975	52.7	16.8	9.8
1976	52.0	15.8	8.5
1977	50.3	16.0	8.5
1978	50.6	15.7	7.9
1979	48.6	16.0	8.5
1980	50.8	17.9	10.4
1981	52.3	19.5	11.6
1982	56.0	21.3	13.0
1983	55.4	21.7	13.4

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[1] Poverty rate based upon a comparison of family's pre-tax cash income against "Orshansky" poverty thresholds.

Source: Current Population Survey.

Support Table for Charts 3.4 and 3.5

POOR CHILDREN IN FAMILIES BY TYPE, 1959–83

[In thousands]

Year	Total poor children in families	Female headed families	Percent of total	Male present	Percent of total
1959	17,208	4,145	24.1	13,063	75.9
1960	17,288	4,095	23.7	13,193	76.3
1961	16,577	4,044	24.4	12,533	75.6
1962	16,630	4,506	27.1	12,124	72.9
1963	15,691	4,554	29.0	11,137	71.0
1964	15,736	4,422	28.1	11,314	71.9
1965	14,388	4,562	31.7	9,826	68.3
1966	12,146	4,262	35.1	7,884	64.9
1967	11,427	4,246	37.2	7,181	62.8
1968	10,739	4,409	41.1	6,330	58.9
1969	9,500	4,247	44.7	5,253	55.3
1970	10,235	4,689	45.8	5,546	54.2
1971	10,344	4,850	46.9	5,494	53.1
1972	10,082	5,094	50.5	4,988	49.5
1973	9,453	5,171	54.7	4,282	45.3
1974	9,966	5,361	53.8	4,605	46.2
1975	10,881	5,597	51.4	5,284	48.6
1976	10,080	5,583	55.4	4,497	44.6
1977	10,029	5,658	56.4	4,371	43.6
1978	9,722	5,687	58.5	4,035	41.5
1979	9,993	5,635	56.4	4,358	43.6
1980	11,114	5,866	52.8	5,248	47.2
1981	12,069	6,305	52.2	5,764	47.8
1982	13,139	6,696	51.0	6,443	49.0
1983	13,326	6,709	50.3	6,617	49.7

Source: Current Population Survey.

Support Table for Charts 3.6a and 3.6b

POVERTY RATES FOR RELATED CHILDREN BY RACE, ETHNICITY, AND FAMILY TYPE: 1959–83

Year	White			Black			Hispanic		
	All	Male present	Female head	All	Male present	Female head	All	Male present	Female head
1959	20.6	17.4	64.6	65.3	60.6	81.6			
1960	20.0	17.0	59.9						
1961	18.7	16.0	54.6						
1962	17.9	15.1	57.6						
1963	16.5	13.7	54.1						
1964	16.1	13.4	49.7						
1965	14.4	11.4	52.9						
1966	12.1	9.2	46.9	50.6	39.9	76.6			
1967	11.3	8.7	42.1	47.4	35.3	72.4			
1968	10.7	7.8	44.4	43.1	29.8	70.5			
1969	9.7	6.7	45.2	39.6	25.0	68.2			
1970	10.5	7.3	43.1	41.5	26.0	67.7			
1971	10.9	7.4	44.6	40.7	25.5	66.6			
1972	10.1	6.8	41.1	42.7	24.1	69.5			
1973	9.7	6.0	42.1	40.6	21.7	67.2	27.8	18.8	68.7
1974	11.0	6.9	42.9	39.6	20.0	65.0	28.6	20.0	64.3
1975	12.5	8.2	44.2	41.4	22.1	66.0	33.1	23.8	68.4
1976	11.3	7.1	42.7	40.4	19.4	65.6	30.1	20.8	67.3
1977	11.4	7.1	40.3	41.6	19.9	65.7	28.0	17.9	68.6
1978	11.0	6.8	39.9	41.2	17.6	66.4	27.2	17.2	68.9
1979	11.4	7.3	38.6	40.8	18.7	63.1	27.7	19.2	62.2
1980	13.4	9.0	41.6	42.1	20.3	64.8	33.0	22.9	65.0
1981	14.7	10.0	42.8	44.9	23.4	67.7	35.4	24.5	67.3
1982	16.5	11.6	46.5	47.3	24.1	70.7	38.9	27.8	71.8
1983	16.9	11.9	46.9	46.3	23.6	68.5	37.8	27.3	70.6

Source: U.S. Department of Commerce. Bureau of the Census. Series P–60. "Characteristics of the Population Below the Poverty Level." Selected years.

Support Table for Chart 3.7

RATIO OF FEMALE-HEADED FAMILY POVERTY RATE TO MALE-PRESENT FAMILY RATE 1959–83

	White children			Black children					
Year	Ratio of female-headed ratio to other family rate	Female-headed families	Male present	Ratio of female-headed ratio to other family rate	Female-headed families	Male present	Ratio of poverty rate of children in female-headed families to poverty rate for children in male-present families	Female-headed	Male present
1959	3.7	64.6	17.4	1.3	81.6	60.6			
1960	3.5	59.9	17.0						
1961	3.4	54.6	16.0						
1962	3.8	57.6	15.1						
1963	3.9	54.1	13.7						
1964	3.7	49.7	13.4						
1965	4.6	52.9	11.4						
1966	5.1	46.9	9.2	1.9	76.6	39.9			
1967	4.8	42.1	8.7	2.1	72.4	35.3			
1968	5.7	44.4	7.8	2.4	70.5	29.8			
1969	6.7	45.2	6.7	2.7	68.2	25.0			
1970	5.9	43.1	7.3	2.6	67.7	26.0			
1971	6.0	44.6	7.4	2.6	66.6	25.5			
1972	6.0	41.1	6.8	2.9	69.5	24.1			

1973	7.0	42.1	6.0	3.1	67.2	21.7	3.6	68.7	18.8
1974	6.2	42.9	6.9	3.3	65.0	20.0	3.2	64.3	20.0
1975	5.4	44.2	8.2	3.0	66.0	22.1	2.9	68.4	23.8
1976	6.0	42.7	7.1	3.4	65.6	19.4	3.2	67.3	20.8
1977	5.7	40.3	7.1	3.3	65.7	19.9	3.8	68.6	17.9
1978	5.9	39.9	6.8	3.8	66.4	17.6	4.0	68.9	17.2
1979	5.3	38.6	7.3	3.4	63.1	18.7	3.2	62.2	19.2
1980	4.6	41.6	9.0	3.2	64.8	20.3	2.8	65.0	22.9
1981	4.3	42.8	10.0	2.9	67.7	23.4	2.7	67.3	24.5
1982	4.0	46.5	11.6	2.9	70.7	24.1	2.6	71.8	27.8
1983	3.9	46.9	11.9	2.9	68.5	23.6	2.6	70.6	27.3

Source: U.S. Department of Commerce. Bureau fo Census. Series P–60 "Characteristics of the Population Below the Poverty Level." Selected years.

Support Table for Chart 3.8

COMPOSITION OF RELATED CHILDREN IN POVERTY BY RACE: 1983

Family type	Total		White		Black		Hispanic	
	Number (in thousands)	Percent	Number (in thousands)	Percent	Number (in thousands)	Percent	Number (in thousands)	Percent
Male-present	6,617	49.7	5,100	60.3	1,073	25.2	1,150	54.6
Female-head	6,709	50.3	3,356	39.7	3,185	74.8	956	45.4

Source: U.S. Commerce Department, Bureau of the Census "Characteristics of the Low Income Population" p. 60, No. 147.

Support Table for Chart 3.9

COMPOSITION OF CHILD POVERTY POPULATION BY FAMILY TYPE AND RACE: 1966–83

[In thousands]

Year	Female head			Male present		
	Nonwhite	White	Total	Nonwhite	White	Total
1966	2,150	2,112	4,262	2,792	5,092	7,884
1967	2,316	2,930	4,246	2,382	4,799	7,181
1968	2,334	2,075	4,409	2,032	4,298	6,330
1969	2,179	2,068	4,247	1,655	3,598	5,253
1970	2,442	2,247	4,689	1,651	3,891	5,546
1971	2,398	2,452	4,850	1,605	3,889	5,494
1972	2,821	2,273	5,094	1,477	3,511	4,988
1973	2,710	2,461	5,171	1,281	3,001	4,282
1974	2,678	2,683	5,361	1,209	3,396	4,605
1975	2,784	2,813	5,597	1,350	3,394	5,284
1976	2,870	2,713	5,583	1,176	3,321	4,497
1977	2,965	2,693	5,658	1,121	3,250	4,371
1978	3,060	2,627	5,687	988	3,047	4,035
1979	3,006	2,629	5,635	1,079	3,279	4,358
1980	3,053	2,813	5,866	1,244	4,004	5,248
1981	3,185	3,120	6,305	1,455	4,309	5,764
1982	3,447	3,249	6,696	1,411	5,032	6,443
1983	3,353	3,356	6,705	1,517	5,100	6,617

Source: U.S. Department of Commerce. Bureau of the Census. "Characteristics of Low Income Population: 1983" p. 60 No. 147.

Support Table for Chart 3.10

SHARE OF ALL CHILDREN LIVING IN A FEMALE-HEADED FAMILY BY MARITAL STATUS OF MOTHER AND RACE: 1983

	White		Black	
	Number (in thousands)	Percent	Number (in thousands)	Percent
Never married	728	1.4	1,540	16.4
Separated/divorced	5,613	10.9	2,516	26.8
Widowed	957	1.9	632	6.5

Source: March 1984 Current Population Survey. Estimates prepared by Congressional Research Service. All figures are estimates and subject to assumptions used in their calculation and limitations of the data.

Chart 3.11

Chart itself contains all pertinent information.

Support Table for Chart 3.12

ESTIMATED AND ACTUAL POVERTY RATES FOR RELATED CHILDREN: 1959–83[1]

Year	Actual	Estimated
1959	26.9	26.9
1960	26.5	26.4
1961	25.2	25.0
1962	24.7	24.5
1963	22.8	22.3
1964	22.7	22.4
1965	20.7	19.8
1966	17.4	16.6
1967	16.3	15.2
1968	15.3	14.2
1969	13.8	12.5
1970	14.9	13.0
1971	15.1	13.2
1972	14.9	12.5
1973	14.2	11.5
1974	15.1	12.1
1975	16.8	13.6
1976	15.8	12.0
1977	16.0	12.2
1978	15.7	11.5
1979	16.0	11.9
1980	17.9	13.9
1981	19.5	15.0
1982	21.3	16.7
1983	21.7	16.9

[1] Estimated poverty rate assumes that the number of children in female headed and male present families remain constant, while the poverty rates vary.

Source: March Current Population Survey. All figures are estimates prepared by Congressional Research Service. Estimates are subject to limitations of data and assumptions used in the calculations.

Chart 4.1

Chart itself provides data points.

Support Table for Chart 4.2

MEAN ANNUAL EARNINGS FOR MOTHERS BY AGE AND EDUCATION: 1982–83

	Total	Mother's age									
		Under 20	20–24	25–29	30–34	35–39	40–44	45–49	50–54	55–59	60–64
All mothers	$5,972	1,062	3,266	5,099	6,235	7,197	7,033	6,392	5,893	4,639	2,681
Failed to complete high school	2,885	849	1,612	2,514	3,104	3,801	3,643	3,368	3,072	2,423	(1)
Completed high school	6,721	1,414	3,965	5,685	7,812	7,812	7,771	7,248	7,065	6,219	(1)
H.S. diploma only	5,454	1,484	3,748	4,193	6,314	6,314	6,198	5,920	5,433	4,705	(1)
Completed some college	8,530	(1)	4,762	7,007	9,570	9,570	9,570	9,367	9,878	9,537	(1)

[1] Data not shown due to sample being less than 75,000 weighted cases.

Note.—Table prepared by CRS combined data from the March 1984 and March 1983 Current Population Surveys. Data are for mothers with "own children" living in primarily and secondary families. Means annual earnings are computed for all mothers, regardless of whether they had any earnings during the year.

Support Table for Chart 4.3

AVERAGE NUMBER OF CHILDREN LIVING AT HOME BY WOMEN'S AGE, RACE AND EDUCATION: 1982–83

	Woman's Age									
	Under 20	20–24	25–29	30–34	35–39	40–44	45–49	50–54	55–59	60–64
Total	0.4	0.7	1.2	1.6	1.8	1.2	0.6	0.3	0.1	0
Failed to complete high school	.6	1.4	2.0	2.4	2.1	1.2	.7	.3	.1	0
Completed high school	.3	.5	1.1	1.5	1.7	1.2	.6	.3	.1	0
High school diploma only	.3	.7	1.4	1.8	1.8	1.2	.6	.3	.1	0
Completed some college	.1	.3	.7	1.2	1.6	1.3	.7	.3	.1	0
White (total)	.4	.6	1.1	1.6	1.8	1.2	.6	.3	.1	0
Failed to complete high school	.5	1.3	1.9	2.3	2.0	1.2	.7	.3	.1	0
Completed high school	.2	.5	1.0	1.5	1.7	1.2	.6	.2	.1	0
High school diploma only	.3	.7	1.3	1.8	1.8	1.2	.6	.2	.1	0
Completed some college	.1	.2	.7	1.2	1.6	1.3	.7	.3	.1	0
Black (Total)	.8	1.1	1.6	1.9	1.8	1.2	.7	.3	.2	0
Failed to complete high school	.9	1.7	2.3	2.8	2.1	1.3	.8	.4	.2	0
Completed high school	(1)	.9	1.4	1.7	1.7	1.1	.7	.3	.1	0
High school diploma only	(1)	1.1	1.7	2.0	1.8	1.2	.7	.3	.1	0.1
Completed some college	(1)	.6	1.1	1.4	1.6	1.1	.6	.3	.1	0

[1] Data not shown. Sample size less than 75,000 weighted cases.

Note.—Table prepared by CRS using combined data from the March 1984 and March 1983 Current Population Surveys. Data represent the mean number of "own children" for women who are in married-couple families, heading a family, or living alone, as unrelated individuals. Caution should be exercised in interpreting the table, since not all women or children are included. For example, women living with their parents are not included, nor are any of such women's children.

Support Table for Chart 4.4

MEAN ANNUAL HOURS WORKED BY MARRIED WOMEN BY WOMEN'S AGE AND PRESENCE OF CHILDREN: 1982–83

	Women's Age									
	Under 20	20–24	25–29	30–34	35–39	40–44	45–49	50–54	55–59	60–64
Married women without children	861	1,458	1,609	1,633	1,468	1,295	1,135	992	757	506
Married women with children	377	688	834	896	969	1,039	933	869	603	466

Note.—Table prepared by CRS using combined data from the March 1984 and the March 1983 Current Population Surveys. Data are for mothers with "own children" living in primary and secondary families. Mean annual hours worked are computed for all mothers, regardless of whether they had any earnings during the year.

Support Table for Charts 4.5 and 4.6

MEAN ANNUAL EARNINGS FOR MARRIED MEN WITH CHILDREN BY AGE, RACE AND EDUCATION: 1982–83

	Total	Father's age									
		Under 20	20–24	25–29	30–34	35–39	40–44	45–49	50–54	55–59	60–64
All fathers	$22,013	8,334	12,027	16,830	20,905	24,246	26,042	25,684	24,808	22,136	15,925
Failed to complete high school	12,912	(1)	9,006	11,367	12,806	14,269	14,064	14,666	15,176	13,968	10,506
Completed high school	24,074	(1)	13,241	17,975	22,070	25,822	28,540	28,742	28,516	26,665	20,962
High school diploma only	19,190	(1)	12,843	16,242	18,444	20,715	22,630	21,896	20,920	21,154	17,002
Completed some college	28,369	(1)	14,654	20,441	24,845	29,108	33,187	34,403	34,679	31,804	24,773
White (total)	$22,653	8,460	12,391	17,274	21,448	24,832	26,734	26,566	25,478	23,094	17,496
Failed to complete high school	13,511	(1)	9,430	11,730	13,173	14,960	14,602	15,484	15,851	14,928	11,699
Completed high school	24,623	(1)	13,642	18,426	22,597	26,303	29,152	29,390	28,961	27,260	21,835
High school diploma only	19,721	(1)	13,146	16,643	18,980	21,317	23,246	22,410	21,487	21,432	17,374
Completed some college	28,904	(1)	15,402	20,948	25,318	29,481	33,766	35,197	35,164	32,902	26,111
Black (total)	$14,750	(1)	8,990	13,128	15,173	16,437	18,006	15,277	14,464	11,040	9,374
Failed to complete high school	9,499	(1)	(1)	8,747	10,349	10,320	11,360	11,113	10,591	(1)	(1)
Completed high school	16,753	(1)	10,019	14,137	16,200	18,143	20,327	18,476	18,411	(1)	(1)
High school diploma only	14,358	(1)	10,354	13,043	14,110	14,816	17,265	16,352	(1)	(1)	(1)
Completed some college	19,934	(1)	(1)	16,080	18,670	21,823	24,004	20,611	(1)	(1)	(1)

[1] Data not shown. Sample size less than 75,000 weighted cases.

Note.—Table prepared by CRS using combined data from the March 1984 and March 1983 Current Population Surveys. Data are for fathers with "own children" living in primary and secondary married couple families. Mean annual earnings are computed for all fathers, regardless of whether they had any earnings during the year.

Support Table for Chart 4.7

MEAN ANNUAL HOURS WORKED BY MARRIED MEN WITH CHILDREN BY AGE, RACE, AND EDUCATION: 1982–83

	Total	Father's age									
		Under 20	20–24	25–29	30–34	35–39	40–44	45–49	50–54	55–59	60–64
Total, married men	1,965	1,347	1,672	1,870	1,686	2,035	2,086	2,047	1,964	1,846	1,467
Failed to complete high school	1,666	(1)	1,510	1,702	1,701	1,772	1,751	1,758	1,705	1,622	1,321
Completed high school	2,033	(1)	1,738	1,905	2,027	2,076	2,156	2,127	2,063	1,972	1,602
High school diploma only	1,929	(1)	1,719	1,859	1,920	1,942	2,066	2,039	1,937	1,961	1,628
Completed some college	2,124	(1)	1,803	1,971	2,108	2,162	2,227	2,201	2,167	1,982	1,577
White (total)	1,999	1,355	1,731	1,906	2,013	2,069	2,113	2,071	1,992	1,888	1,528
Failed to complete high school	1,717	(1)	1,560	1,745	1,747	1,824	1,787	1,790	1,741	1,686	1,412
Completed high school	2,060	(1)	1,804	1,939	2,050	2,106	2,178	2,143	2,082	1,993	1,613
High school diploma only	1,961	(1)	1,778	1,894	1,946	1,981	2,087	2,060	1,978	1,988	1,605
Completed some college	2,146	(1)	1,896	2,002	2,128	2,185	2,249	2,213	2,170	1,999	1,621
Black (total)	1,631	....	1,130	1,578	1,727	1,674	1,820	1,730	1,578	1,434	1,297
Failed to complete high school	1,397	(1)	(1)	1,454	1,434	1,462	1,676	1,602	1,437	(1)	(1)
Completed high school	1,720	(1)	1,195	1,607	1,789	1,734	1,871	1,827	1,722	(1)	(1)
High school diploma only	1,634	(1)	1,201	1,568	1,724	1,589	1,828	1,722	(1)	(1)	(1)
Completed some college	1,835	(1)	(1)	16,76	1,866	1,894	1,922	1,931	(1)	(1)	(1)

[1] Data not shown. Sample size less than 75,000 weighted cases.

Note.—Table prepared by CRS using combined data from the March 1984 and March 1983 Current Population Surveys. Data are for fathers with "own children" living in primary and secondary married couple families. Mean annual hours worked is computed for all fathers, regardless of whether they worked at any time during the year.

Support Table for Chart 5.1

MARKET INCOME POVERTY RATES AND UNEMPLOYMENT RATES FOR NONWHITE AND WHITE MALES: 1967 TO 1983

Year	White male unemployment rate	White male market income poverty rate	Nonwhite male unemployment rate	Nonwhite male market income poverty rate
1967	2.70	8.65	6.00	30.44
1968	2.60	7.90	5.60	26.40
1969	2.50	6.92	5.30	23.71
1970	4.00	7.64	7.30	24.16
1971	4.90	8.10	9.10	24.16
1972	4.50	7.68	8.90	22.89
1973	3.80	6.90	7.70	19.95
1974	4.40	8.14	9.20	20.32
1975	7.20	10.43	13.60	23.19
1976	6.40	8.62	12.70	20.30
1977	5.50	8.61	12.30	19.23
1978	4.60	7.92	11.00	17.90
1979	4.50	8.10	10.40	18.54
1980	6.10	10.16	13.20	19.82
1981	6.50	10.97	14.10	22.38
1982	8.80	12.72	18.20	23.12
1983	8.80	13.06	18.50	23.78

Note.—Table prepared by the Congressional Research Service.

Support Table for Chart 5.2

MARKET INCOME POVERTY RATES AND UNEMPLOYMENT RATES FOR NONWHITE AND WHITE FEMALES: 1967 to 1983

Year	White female unemployment rate	White female market income poverty rate	Nonwhite female unemployment rate	Nonwhite female market income poverty rate
1967	4.60	48.74	9.10	76.17
1968	4.30	51.30	8.30	77.27
1969	4.20	51.94	7.80	75.90
1970	5.40	52.20	9.30	72.97
1971	6.30	54.31	10.90	73.53
1972	5.90	51.58	11.40	75.81
1973	5.30	52.68	10.60	75.34
1974	6.10	52.75	10.80	71.42
1975	8.60	53.17	13.90	72.51
1976	7.90	49.86	13.60	71.37
1977	7.30	48.11	13.90	72.30
1978	6.20	45.65	13.00	70.28
1979	5.90	44.34	12.30	67.85
1980	6.50	47.42	13.10	66.01

MARKET INCOME POVERTY RATES AND UNEMPLOYMENT RATES FOR NONWHITE AND WHITE FEMALES: 1967 to 1983—Continued

Year	White female unemployment rate	White female market income poverty rate	Nonwhite female unemployment rate	Nonwhite female market income poverty rate
1981	6.90	47.57	14.30	69.27
1982	8.30	51.30	16.40	69.81
1983	7.90	50.11	17.10	68.83

Note.—Table prepared by the Congressional Research Service.

Support Table for Chart 5.3

MARKET INCOME POVERTY RATES AND POST-TRANSFER POVERTY RATES FOR NONWHITE AND WHITE MALES: 1967 TO 1983

Year	White male market income poverty rate	White male post-transfer poverty rate	Nonwhite male market income poverty rate	Nonwhite male post-transfer poverty rate
1967	8.65	7.46	30.44	28.37
1968	7.90	6.64	26.40	23.38
1969	6.92	5.77	23.71	20.78
1970	7.64	6.21	24.16	20.14
1971	8.10	6.34	24.16	19.82
1972	7.68	5.81	22.89	19.63
1973	6.90	5.10	19.95	16.82
1974	8.14	6.13	20.32	16.70
1975	10.43	7.04	23.19	17.39
1976	8.62	6.06	20.30	16.06
1977	8.61	6.14	19.23	14.48
1978	7.92	5.84	17.90	13.75
1979	8.10	6.15	18.54	14.89
1980	10.16	7.73	19.82	16.15
1981	10.97	8.52	22.38	18.21
1982	12.72	10.05	23.12	18.48
1983	13.06	10.37	23.78	20.60

Note.—Table prepared by the Congressional Research Service.

Support Table for Chart 5.4

MARKET INCOME POVERTY RATES AND POST-TRANSFER POVERTY RATES FOR NONWHITE AND WHITE FEMALES: 1967 TO 1983

Year	White female market income poverty rate	White female post-transfer poverty rate	Nonwhite female market income poverty rate	Nonwhite female post-transfer poverty rate
1967	48.74	38.21	76.17	68.54
1968	51.30	39.63	77.27	65.78
1969	51.94	39.83	75.90	62.70
1970	52.20	38.54	72.97	62.57
1971	54.31	40.02	73.53	60.27
1972	51.58	37.69	75.81	64.39
1973	52.68	37.91	75.34	62.17
1974	52.75	38.49	71.42	60.53
1975	53.17	40.17	72.51	60.48
1976	49.86	38.77	71.37	60.67
1977	48.11	36.34	72.30	61.04
1978	45.65	35.69	70.28	61.02
1979	44.34	34.85	67.85	57.43
1980	47.42	39.14	66.01	58.30
1981	47.57	39.99	69.27	61.46
1982	51.30	43.38	69.81	64.29
1983	50.11	43.20	68.83	63.31

Note.—Table prepared by the Congressional Research Service.

Support Table for Chart 5.5

THE DIFFERENCE BETWEEN MARKET INCOME POVERTY RATES AND POST-TRANSFER POVERTY RATES BY RACE AND SEX: 1967–83

Year	White male market income minus post-transfer	Nonwhite male market income minus post-transfer	White female market income minus post-transfer	Nonwhite female market income minus post-transfer
1967	1.19	2.07	10.53	7.63
1968	1.26	3.02	11.67	11.49
1969	1.16	2.93	12.11	13.20
1970	1.43	4.02	13.66	10.40
1971	1.76	4.34	14.29	13.26
1972	1.87	3.26	13.90	11.42
1973	1.80	3.13	14.77	13.17
1974	2.02	3.62	14.26	10.89
1975	3.39	5.80	13.00	12.03
1976	2.56	4.24	11.10	10.70
1977	2.47	4.75	11.77	11.26
1978	2.08	4.15	9.31	9.26
1979	1.96	3.65	9.49	10.42

THE DIFFERENCE BETWEEN MARKET INCOME POVERTY RATES AND POST-TRANSFER POVERTY RATES BY RACE AND SEX: 1967-83—Continued

Year	White male market income minus post-transfer	Nonwhite male market income minus post-transfer	White female market income minus post-transfer	Nonwhite female market income minus post-transfer
1980	2.43	3.67	8.28	7.71
1981	2.46	4.17	7.57	7.81
1982	2.67	4.64	7.92	5.52
1983	2.69	3.18	6.92	5.52

Note.—Table prepared by Congressional Research Service.

Support Table for Chart 5.6

DISTRIBUTION OF FAMILY INCOME AMONG FAMILIES WITH CHILDREN: 1983

Family income (in thousands)	Percent
0	0.773
2.5	7.640
7.5	10.906
12.5	11.467
17.5	11.678
22.5	11.796
27.5	11.121
32.5	9.290
37.5	7.090
42.5	5.692
47.5	3.860
52.5	3.050
57.5	1.985
62.5	1.258
67.5	.766
72.5	.559
77.5	.574
82.5	.222
87.5	.109
92.5	.050
97.5	.045
102.5	.014
107.5	.024
112.5	.012
117.5	.005
122.5	.008
127.5	.001
132.5	.003
152.5	.004

Note.—Table prepared by Congressional Research Service.

Support Table for Chart 5.7

DISTRIBUTION OF FAMILY INCOME POVERTY RATIO AMONG FAMILIES WITH CHILDREN: 1983

Family income (poverty ratio)	Percent
0	0.773
.25	7.167
.75	11.104
1.25	11.374
1.75	11.743
2.25	12.323
2.75	10.857
3.25	9.587
3.75	7.096
4.25	5.123
4.75	4.043
5.25	3.018
5.75	1.748
6.25	1.440
6.75	.848
7.25	.613
7.75	.378
8.25	.268
8.75	.181
9.25	.095
9.75	.088
10.25	.044
10.75	.033
11.25	.020
11.75	.007
12.25	.008
12.75	.006
13.25	.003
13.75	.005
14.25	.002
14.75	.003
15.25	.005

Note.—Table prepared by Congressional Research Service.

Support Table for Chart 5.8

FAMILY INCOME POVERTY RATIOS AMONG FAMILIES WITH CHILDREN BY RACE AND SEX: 1968–83

Year	Males		Females	
	White	Nonwhite	White	Nonwhite
1968	2.73581	1.84072	1.27924	0.63389
1969	2.86672	1.92232	1.25755	.64657
1970	2.82867	1.97249	1.23524	.70237
1971	2.84767	1.98876	1.18463	.69954
1972	3.04459	2.12921	1.24510	.66750
1973	3.12950	2.26350	1.27698	.66053
1974	3.00567	2.19683	1.28095	.73128
1975	2.91725	2.10715	1.21346	.71215
1976	3.04557	2.21277	1.31912	.70390
1977	3.13209	2.29808	1.39846	.72510
1978	3.22090	2.47544	1.44846	.79818
1979	3.17249	2.43970	1.47736	.82203
1980	2.96228	2.31031	1.39073	.82343
1981	2.95394	2.28171	1.33814	.74604
1982	2.92701	2.25378	1.25487	.74822
1983	2.98156	2.30504	1.30170	.76990

Source: Peter Gottschalk, Bowdoin College.

Support Table for Chart 5.9

MEAN CASH TRANSFER FAMILY INCOME POVERTY RATIOS OF FAMILIES WITH CHILDREN BY RACE AND SEX: 1968–83

Year	Males		Females	
	White	Nonwhite	White	Nonwhite
1968	0.05397	0.07149	0.29148	0.31876
1969	.05562	.06612	.31682	.33806
1970	.06947	.08674	.35459	.32881
1971	.07530	.09071	.36449	.38243
1972	.08104	.09046	.36624	.38925
1973	.08215	.09045	.39932	.39878
1974	.08953	.11767	.38107	.36378
1975	.12503	.14726	.36984	.38117
1976	.11039	.13197	.35301	.38503
1977	.10280	.12455	.34810	.36371
1978	.09728	.12450	.33420	.34243
1979	.09328	.12203	.29687	.32201
1980	.10014	.15248	.29258	.30212
1981	.09333	.12687	.26290	.29186
1982	.10680	.12890	.27549	.26957
1983	.10192	.13446	.25179	.26756

Source: Peter Gottschalk, Bowdoin College.

Chart 6.1

Table 6–5 in Chapter VI provides data for this Chart.

Support Table for Chart 6.2

AGGREGATE INCOME DEFICIT FOR ALL CHILDREN UNDER 18 BY SOURCE OF INCOME: 1972–83

[In millions of dollars]

Year	Market income gap [1]	Prewelfare income gap [2]	Post-transfer income gap (official measure)
Current dollars:			
1972	$8,805	$7,187	$4,378
1973	9,467	7,501	4,442
1974	10,890	8,655	5,362
1975	11,912	9,366	5,827
1976	11,663	9,383	5,571
1977	12,719	10,392	6,196
1978	13,887	11,688	7,675
1979	14,330	12,032	7,811
1980	18,382	15,346	10,281
1981	21,518	18,037	12,495
1982	25,004	21,209	15,136
1983	26,480	22,341	15,869
Constant dollars:			
1972	20,976	17,121	10,429
1973	21,232	16,823	9,962
1974	21,833	17,482	10,830
1975	22,047	17,335	10,785
1976	20,415	16,424	9,752
1977	20,907	17,082	10,185
1978	21,206	17,848	11,720
1979	19,666	16,513	10,720
1980	22,225	18,554	12,430
1981	23,577	19,763	13,691
1982	25,808	21,891	15,623
1983	26,480	22,341	15,869

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[1] Includes income from sources such as earnings, dividends, interest, private and public pensions, alimony and child support.

[2] In addition to all the income contained in the market income category, also includes benefits from social security, railroad retirement, unemployment compensation, workman's compensation and veteran's benefits.

Note.—Table prepared by the Congressional Research Service. All amounts are based upon a comparison of a family's income against the appropriate Census ("Orshansky") poverty level. The income deficit is the difference between a family's income and the poverty line. The deficit may range for each family from a maximum of the poverty threshold for a family with zero or negative income to zero for families with income at or above the poverty threshold.

Source: All amounts are estimated derived from the March Current Population Survey, 1970–84. Constant dollar figures are based upon the CPI–U.

Support Table for Chart 6.3

PER CAPITA INCOME DEFICIT FOR ALL CHILDREN UNDER 18 BY SOURCE OF INCOME: 1972–83

Year	Market income gap [1]	Prewelfare income gap [2]	Post-transfer income gap (official measure)
Current dollars:			
1972	$684	$628	$425
1973	767	699	460
1974	824	755	516
1975	824	763	526
1976	900	835	543
1977	982	918	607
1978	1,110	1,050	752
1979	1,151	1,085	773
1980	1,326	1,240	890
1981	1,449	1,359	999
1982	1,564	1,485	1,109
1983	1,651	1,562	1,149
Constant dollars:			
1972	1,629	1,496	1,012
1973	1,720	1,568	1,032
1974	1,664	1,525	1,042
1975	1,525	1,412	974
1976	1,575	1,462	950
1977	1,614	1,509	998
1978	1,695	1,603	1,148
1979	1,580	1,489	1,061
1980	1,603	1,499	1,076
1981	1,588	1,489	1,095
1982	1,614	1,533	1,145
1983	1,651	1,562	1,149

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[1] Includes income from sources such as earnings, dividends, interest, private and public pensions, alimony and child support.

[2] In addition to all the income contained in the market income category, also includes benefits from social security, railroad retirement, unemployment compensation, workman's compensation, and veteran's benefits.

Note.—Table prepared by the Congressional Research Service. All amounts are based upon a comparison of a family's income against the appropriate Census ("Orshansky") poverty level. The income deficit is the difference between a family's income and the poverty line. The deficit may range for each family from a maximum of the poverty threshold for a family with zero or negative income to zero for families with incomes at or above the poverty threshold.

Source: All amounts are estimates derived from the March Current Population Survey, 1970–84. Constant dollar figures are based upon the CPI–U.

Charts 6.4 and 6.5

Table 6–7 in chapter VI provides data for these charts.

Support Table for Chart 6.6

MAXIMUM MONTHLY POTENTIAL BENEFITS, AFDC, AND FOOD STAMPS, 1 PARENT FAMILY OF 3 PERSONS, JANUARY 1985

State	Maximum AFDC grant	Food stamp benefit	Combined benefits	Combined benefits as a percent of 1984 poverty threshold
Alabama	$118	$208	$326	47
Alaska	719	192	911	132
Arizona	233	206	439	64
Arkansas	164	208	372	54
California	555	110	665	96
Colorado	346	172	518	75
Connecticut	546	112	658	95
Delaware	287	190	477	69
District of Columbia	327	178	505	73
Florida	240	204	444	64
Georgia	208	208	416	60
Hawaii	468	276	744	108
Idaho	304	185	489	71
Illinois	302	186	488	71
Indiana	256	199	455	66
Iowa	360	168	528	77
Kansas	373	164	537	78
Kentucky	197	208	405	59
Louisiana	190	208	398	58
Maine	370	165	535	78
Maryland	313	195	508	74
Massachusetts	396	157	553	80
Michigan (Washington County)	447	164	611	89
Michigan (Wayne County)	417	173	590	86
Minnesota	524	119	643	93
Mississippi	96	208	304	44
Missouri	263	197	460	67
Montana	332	177	509	74
Nebraska	350	171	521	76
Nevada	233	206	439	64
New Hampshire	378	163	541	78
New Jersey	385	161	546	79
New Mexico	258	199	457	66
New York (Suffolk County)	579	112	691	100
New York (New York City)	474	143	617	89
North Carolina	223	208	431	62
North Dakota	371	165	536	78
Ohio	290	189	479	69
Oklahoma	282	192	474	69
Oregon	386	196	582	84
Pennsylvania	364	167	531	77
Rhode Island	479	171	650	94
South Carolina	187	208	395	57

MAXIMUM MONTHLY POTENTIAL BENEFITS, AFDC, AND FOOD STAMPS, 1 PARENT FAMILY OF 3 PERSONS, JANUARY 1985—Continued

State	Maximum AFDC grant	Food stamp benefit	Combined benefits	Combined benefits as a percent of 1984 poverty threshold
South Dakota	329	178	507	73
Tennessee	138	208	346	50
Texas	167	208	375	54
Utah	363	167	530	77
Vermont	558	109	667	97
Virginia	327	178	505	73
Washington	476	143	619	90
West Virginia	206	208	414	60
Wisconsin	533	116	649	94
Wyoming	265	197	462	67
Guam	265	306	571	83
Virgin Islands	171	267	438	63
Median State	327			

Note.—Table prepared by the Congressional Research Service.

Support Table for Chart 6.7

MAXIMUM AFDC AND FOOD STAMPS BENEFITS FOR A FAMILY OF 4, 1968-83—MEDIAN STATE

[Constant 1983 dollars]

Year	Maximum AFDC benefit	Maximum AFDC benefit plus food stamps	Percent of poverty threshold
1968	$570		
1969	566		
1970	601		
1971	581	$737	86.9
1972	584	730	86.1
1973	568	716	84.5
1974	577	769	90.6
1975	507	716	84.5
1976	536	720	84.8
1977	536	705	83.1
1978	525	700	82.6
1979	484	659	77.7
1980	440	599	70.6
1981	409	579	68.3
1982	393	550	64.9
1983	383	558	65.8
1984	376	542	63.9

Source: Table prepared by the Congressional Research Service.

Support Table for Chart 6.8

MAXIMUM AFDC AND FOOD STAMPS BENEFITS FOR A FAMILY OF 4, 1968-83—TENNESSEE

[Constant 1983 dollars]

Year	Maximum AFDC benefit	Maximum AFDC benefit plus food stamps	Percent of poverty threshold
1968	$385		
1969	365		
1970	345		
1971	330	$558	65.8
1972	328	551	65.0
1973	310	538	63.4
1974	278	554	65.3
1975	254	534	62.9
1976	240	514	60.6
1977	234	497	58.6
1978	235	493	58.1
1979	211	468	55.2
1980	186	421	49.7
1981	168	411	48.5
1982	164	390	46.0
1983	160	402	47.4
1984	168	391	46.1

Source: Table prepared by the Congressional Research Service.

Support Table for Chart 6.9

MAXIMUM AFDC AND FOOD STAMPS BENEFITS FOR A FAMILY OF 4, 1968-83—NEW YORK CITY

[Constant 1983 dollars]

Year	Maximum AFDC benefit	Maximum AFDC benefit plus food stamps	Percent of poverty threshold
1968	$934		
1969	885		
1970	897		
1971	801	$883	104
1972	777	864	102
1973	832	909	107
1974	826	941	111
1975	768	897	106
1976	867	947	112
1977	813	910	107
1978	754	864	102
1979	678	795	93.7
1980	599	711	83.8
1981	585	703	82.9
1982	549	660	77.8
1983	536	665	78.5
1984	566	675	79.6

Source: Table prepared by the Congressional Research Service.

Support Table for Chart 6.10

MAXIMUM AFDC AND FOOD STAMPS BENEFITS FOR A FAMILY OF 4, 1968–83—CALIFORNIA

[Constant 1983 dollars]

Year	Maximum AFDC benefit	Maximum AFDC benefit plus food stamps	Percent of poverty threshold
1968	$659		
1969	625		
1970	590		
1971	668	$793	93.5
1972	695	812	95.8
1973	681	801	94.4
1974	655	821	96.8
1975	670	822	96.9
1976	690	831	97.9
1977	722	835	98.4
1978	670	808	95.3
1979	693	806	95.0
1980	708	787	92.8
1981	683	771	90.9
1982	641	724	85.4
1983	651	746	87.9
1984	660	741	87.4

Source: Table prepared by the Congressional Research Service.

APPENDIX J. MEASURING POVERTY

Since the early 1960s, the official definition of poverty has been one developed by Mollie Orshansky for the Social Security Administration.[1] That definition compares the total cash income of an individual's family with a poverty threshold based on a multiple of the cost of a nutritionally adequate diet for a family of that size and composition: if the family income is below the threshold, each member of the family is officially classified as poor.

The official poverty definition has been criticized on a variety of grounds, among them that income received in the form of goods and services—generally called in-kind income—is not counted, that the thresholds are set improperly, that taxes should be treated consistently in income measures and the thresholds, and that the basic concept of a poverty rate cannot measure the degree of poverty. These problems were clearly recognized by Orshansky and others when the poverty definition was established, but the need for a workable definition meant that compromises had to be made. Further, most of the issues that pose problems today were substantially less important 20 years ago.[2]

ISSUES IN ASSESSING POVERTY AND THE CURRENT MEASURE

What constitutes poverty is inherently a subjective judgment, depending in part on the views of the observer and in part on the use to which a poverty measure is to be put. Any assessment of poverty compares resources available to a family against a standard of need: if the resources are less than the standard, the family is labeled "poor." At issue are two basic questions: what resources should be considered to be available to meet need standards, and at what level should the standards be set?

It is generally agreed that available resources should include all cash income, but questions are raised about non-cash income and assets. Because in-kind income—that is, income received as goods or services—cannot be used to satisfy general needs, it is unclear how such income should be counted; in essence, the issue is one of valuation. Whether assets should be counted beyond the income they produce is also debated, especially in the case of assets that do not generate cash income, such as owner-occupied homes. These issues are discussed in greater detail below.

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[1] There are actually two official poverty definitions. The Orshansky measure is used by the Bureau of the Census to assess which people were poor during an earlier year. The Office of Management and Budget (OMB) measure is used to determine eligibility for federal antipoverty programs. The OMB measure—which is actually calculated each year by the Department of Health and Human Services—is derived by inflating the most recent Census poverty thresholds based on the prior year's change in the Consumer Price Index for Urban Consumers (CPI-U). The focus here is on the Census definition.

[2] This discussion does not consider what may be the most significant problem in measuring poverty—the underreporting of income in the Current Population Survey (CPS). Comparisons of CPS data—the basis for poverty estimates—and income data from programs and the Internal Revenue Service indicate that a significant fraction of income does not show up in the CPS. To the extent that low-income families underreport their income, this would lead to overstated poverty rates. At the same time, underreporting has not changed by much over time, so changes in poverty statistics are likely to be more accurately measured than levels. In any case, no better data are available.

Needs standards are necessarily arbitrary and are defined relative to societal norms. What one person views as inadequate can be seen by another as being fully satisfactory, and what would be considered poverty in a wealthy country like the United States could be an extremely high living standard in a developing country where average incomes are low. At the same time, the choice of poverty thresholds should be determined, at least in part, by the purpose behind the poverty measure. If the measure is to be used primarily as an indicator of what is happening to the number of poor people over time, assessed in terms of an absolute standard of what constitutes poverty, thresholds should be fixed in real terms even though the levels are arbitrary. If, instead, the measure is to be used as an eligibility criterion for assistance programs, thresholds should indicate levels of well-being below which it is agreed that the government should provide aid. Finally, if the measure is meant to assess the well-being of those who are worse off in relation to the rest of the population, thresholds should be set and varied over time to equal some fraction of average living standards.

Measuring poverty is complicated, partly because it is difficult to define need standards and thus required resources, and partly because required and available resources may not be measured in comparable units. If need standards could be defined as minimum amounts of each consumption good or service, available resources would be adequate if they made it possible to obtain the needed amount of each item—that is, if cash resources were sufficient to purchase necessary items not available in kind. Setting standards in terms of how much of each good a family must have to escape poverty, however, is difficult—if not impossible. Resource requirements have therefore been defined in aggregate dollar terms—the poverty thresholds. (See the following section for further discussion of this issue.)

The problem would end here if available resources were also only in dollars: a family with cash income at or above the thresholds would be able to meet the need standards and thus not be poor. But resources are not all monetary; families can get food stamps, subsidized housing, subsidized health insurance, and other goods and services in kind rather than in cash. Because need standards are defined in monetary terms and not on the basis of how much of each consumption item is required to avoid poverty, it is difficult to determine what amounts of in-kind resources would satisfy those needs.

Measuring poverty thus requires two things:

—A definition of what constitutes the standard and the resources required to satisfy those needs, and

—Assessment of whether individual families have the necessary resources.

DEFINING NEED STANDARDS AND RESOURCE REQUIREMENTS

There is no objective method of defining need standards and resource requirements. In principle, standards should represent the minimum amount of each category of goods and services that is necessary for a socially acceptable, minimum standard of living, while resource requirements should be what is necessary to attain those standards. Because there are official nutritional standards, a minimum food bundle that satisfies those standards can be used to define the basic need for food. Such standards do not exist, however, for housing, medical care, clothing, and other requirements, and there is wide disagreement about what standards should be. Moreover, standards set, even for food, are necessarily subjective, reflecting the prevailing living conditions for the nation as a whole and the perceptions of the people defining the standards.

Orshansky skirted the question of quantifying need standards for specific items by establishing poverty thresholds that represent resource requirements. These thresholds were defined as the cost of a bundle of food, multiplied by the ratio of income to food expenditures. Minimum food costs were taken from the economy food plan, the least expensive of four diets determined by the Department of Agriculture (USDA) to meet basic nutritional needs.[3] The income needed to be nonpoor was then set equal to three times the cost of the economy food plan, based on a 1955 survey indicating that families of three or more persons spent one-third of their after-tax income on food. Because food requirements vary with household composition, separate poverty thresholds were calculated for different family types based on size, number of children, and the age and sex of the family's head.[4] Over time, these thresholds have been adjusted for inflation, initially to reflect changes in food prices and more recently to account for changes in the general price level (see further discussion below).

While the Orshansky formulation conveniently sidesteps the issue of defining minimum requirements for every consumption item, its very simplicity means that it cannot accurately measure basic needs for all—or perhaps any—households. For example, because women require less food than men, the original thresholds for female-headed households were set below those for male-headed households, even though needing less food has no effect on requirements for housing, clothes, and other necessities.[5] Unless there is a fixed relationship between food requirements and other needs, defining poverty thresholds as a fixed multiple of poverty-level food costs for different groups can only approximate true resource requirements.

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[3] Even here, however, there is disagreement. The Department of Agriculture has defined both economy and thrifty food plans, the first of which was designed as "emergency and temporary" and the second of which is used as the basis for food stamp allotments. Neither represents the minimum-cost food bundle for meeting nutritional standards, since both allow for a varied diet that includes those foods normally consumed by Americans. Even so, the USDA acknowledges that a person would have to be quite knowledgeable to maintain a nutritional diet with either food plan.

[4] To account for the higher fixed costs of smaller families, multipliers greater than three were used for couples and persons living alone; these multipliers were 3.88 and 5.92, respectively. All other differences in thresholds stem from differences in assumed food needs.

[5] The threshold distinction based on sex of household head was dropped in 1981; currently 48 thresholds are defined for nine sizes of families with nonelderly heads and two sizes of families with elderly heads, with further differentiation based on number of children.

Similarly, objections can be raised against the simplifying assumption that, because in 1955, families with three or more members spent one-third of their income on food, need standards can be defined as three times the cost of food. Families spend a smaller share of their budget on food as their incomes rise. Consequently, poor families spend a larger than average fraction of their incomes on food, and the fraction of income spent on food by all families therefore understates that fraction. Thus, the poverty thresholds derived from the average budget share going for food overstate needs based on normal expenditures of low-income households. In addition, changing relative prices between food and non-food items mean that a fixed relationship between food and non-food expenditures is unlikely to hold over time. If food prices rise less rapidly than other prices, the budget share needed for non-food items would increase and the income requirement would be more than three times the cost of a minimum food bundle.

Updating the thresholds to account for price changes also presents problems, because current methods may not accurately reflect variations in resources required to avoid poverty. Before 1969, the thresholds were adjusted annually for inflation based on changes in the Consumer Price Index for food. That procedure implicitly assumed that the income-to-food-expenditure ratio was unchanging and therefore that resource requirements would grow at the same rate as food prices.[6] Since 1969, the basis for inflation adjustment has been the Consumer Price Index (CPI) for all goods and services. This revised methodology does not assume a constant ratio of income to food expenditures, but it does assume that changing relative prices does not affect the need standards for families.

The major failing of this inflation-adjustment procedure comes from the possibility that prices of goods purchased by poor families might change at a different rate from prices of goods represented in the CPI. Low-income families spend relatively more of their income on food and energy and relatively less on their own homes than does the average family. When prices of food and energy rose faster than the CPI during the early 1970s, the official poverty thresholds failed to reflect these adverse relative price movements. At the end of that decade, rapidly increasing homeownership costs meant that the CPI grew faster than prices generally; during that period, poverty thresholds probably increased in real terms. If poverty thresholds are intended to represent the cost of obtaining a minimum bundle of consumption needs, updating them based on the CPI probably misstates actual costs.

A further objection to the current methodology involves the question of what should be included in the measures of income and food expenditure used to calculate the multiplier. The original analysis counted only cash income after taxes on the income side and food purchases on the food side. Because farm families grow some of their own food, adjustments were made to poverty thresholds for the farm population to reflect their reduced need for cash to buy food.[7] In the early 1960s, this approach made sense, since most income was in cash, and, other than for farm families, relatively little food was received as transfers or in-kind payments. This situation has changed, however, with the growth during the last two decades of government transfer programs (such as food stamps, Medicaid, and housing assistance) that provide non-cash aid and the rapid increase in the proportion of employee compensation paid in the form of fringe benefits (such as pensions, health and life insurance, and employer-provided meals). Ignoring the values of these in-kind benefits in either the numerator or the denominator of the multiplier calculation will yield a less accurate measure of the income-to-food-expenditure ratio.

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[6] Alternatively, the procedure could be viewed as assuming that all prices were changing at the same rate, so using the CPI for food to inflate the thresholds was equivalent to using the CPI for all items. This last assumption was clearly false, however.

At the same time, defenders of the current multiplier argue that the poverty measure should be absolute and unchanging over time, except to reflect general inflation. If the original multiplier calculations accurately measured the income-to-food-expenditure relationship at the time, there is no need to determine a new multiplier taking into account the growth in in-kind benefits, even if such benefits were counted as income. The need standards, according to this argument, should continue to be based on the original multiplier analysis to avoid raising (or lowering) poverty standards over time, and hence to maintain continuity in poverty statistics.

A final objection is that poverty thresholds make no allowance for geographic variation in the cost of living. What few data are available indicate that maintaining a given standard of living can be markedly more expensive in some locations than in others; yet a single set of poverty thresholds, invariant with respect to location, is used to determine whether people are poor. Families officially classified as poor but living in low-cost areas could well be better off than similar families with incomes above the poverty line who live where costs are high.

Despite these objections, the lack of an objective means of defining a family's basic needs for each individual consumption item leaves no better way of setting absolute poverty thresholds.[8] While recognizing the shortcomings of the methodology, this study follows the basic Orshansky multiplier approach in most of the alternative definitions it examines. At the same time, changes are considered that could reduce the impact of some of those shortcomings.

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[7] This adjustment was somewhat arbitrary, however. Thresholds for farm families were set at 70 percent of non-farm thresholds, even though there was little evidence to support such a value. The percentage was raised to 85 percent in 1969 and to 100 percent in 1981 on the assumption that only a small fraction of farm families rely on home production for a significant portion of their food.

[8] The entire issue of defining poverty in terms of need standards could be avoided by setting thresholds relative to median family income. This approach argues that poverty is not absolute, but rather is a function of the standard of living of the average family. The Orshansky multiplier approach itself is not entirely absolute in that the income-to-food-expenditure ratio is based on a national average, thus taking into account the normal standard of living. Similarly, the economy food plan is not a least-cost diet, but rather a low-cost diet that allows for a varied food menu containing the kinds of food consumed by average Americans.

ASSESSING THE ADEQUACY OF RESOURCES

Currently, a family's poverty status is obtained by comparing its total pre-tax, cash income with the relevant poverty threshold. If its annual income falls short of the threshold, the family and all of its members are classified as poor. This section discusses four problems with this approach: no account is taken of the family's non-cash income; wealth and period-to-period fluctuations in income are ignored; the income considered is gross of taxes, while the thresholds are based on after-tax income; and no distinction is made between families that are barely poor and those whose income is far below the threshold.

In-kind income

Perhaps the most frequently mentioned criticism of the official poverty measure is that it ignores non-cash income. A family receiving $200 worth of food stamps each month, living in public housing, and getting subsidized health insurance is considered to be no better off than an otherwise identical family getting none of those benefits. This almost certainly misstates the relative well-being of the two families. Since accepting such income is voluntary, the recipient family is almost certain to be helped and cannot be made worse off. At the same time, any amount of a given good in excess of the minimum requirement has no value in terms of meeting other needs. A family is still poor if it cannot afford all basic needs, regardless of how much food or housing or any other single good it has. Consequently, receipt of non-cash income reduces poverty with respect to other goods only to the extent that it frees cash income to buy those other goods.

By this argument, a particular form of non-cash income should be considered in assessing poverty status only up to a value representing that part of the poverty threshold that would be expected to be allocated to that good. For example, if the poverty threshold for a family were $800 per month and the family was expected to spend 30 percent on housing, the value of housing assistance provided to the family each month should not exceed $240 (30 percent of $800) less the family's own cash expenditures on housing when determining whether or not the family is poor. Any additional non-cash income given in the form of housing does not help the family meet its need for $560 per month (70 percent of $800) for non-housing expenditures.[9] (Since the excess over $240 may substantially improve the family's well-being, however, one might argue that it ought not to be completely excluded from measurement.)

Wealth and the accounting period

The official poverty definition ignores wealth except to the extent that a family's assets generate cash income; only income received during the calendar year is compared with the poverty threshold.[10] But a family's well-being depends less on income than

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[9] As noted above, the current poverty thresholds do not indicate basic needs for individual consumption items. That the thresholds represent income needed to satisfy specific needs is implicit, however.

[10] One form of wealth not considered here is employer contributions to pension plans. Because such wealth cannot be used for current consumption, one might argue that it should be ignored

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on consumption and the ability to satisfy basic needs. A family with significant accumulated savings can continue to consume, even if its income disappears entirely for a year or two, and such a family would not normally be considered poor. At the same time, savings cannot replace income forever, and almost all families with no income at all will eventually become poor in consumption terms.

What is at issue here is the accounting period over which poverty is assessed; the length of that period can greatly affect the measured poverty rate. The official poverty measure uses a 1-year accounting period, long enough to smooth out most short-term fluctuations in incomes such as those caused by periods of illness. Even so, some incomes are more volatile, perhaps because employment is less regular or perhaps because payment comes only at the completion of major tasks, and even an annual accounting period fails to capture the true nature of a family's financial situation. Savings may enable such families to maintain an even consumption pattern; in such cases, the official poverty measure is misleading. This argues for some means of reflecting wealth in assessing poverty.

Two issues mitigate this argument, however. First, good measures of wealth do not exist, nor do individuals in general have a good sense of what their wealth is. While surveys could gather data on wealth just as they do on income, the results would likely be inaccurate because people tend not to know either the extent of their assets or their value. Second, even if wealth could be measured accurately, it is unclear how it should be incorporated into a measure of poverty. Should a family be expected to spend all its savings in a given year? Over 3 years? If so, wealth (or one-third of wealth) should be counted as income. Or should wealth be expected to provide a particular percentage return? Then that percentage of a family's wealth should be considered to be the same as income. That might still be an inaccurate measure of the family's ability to satisfy its immediate consumption needs, however, because some forms of wealth are difficult to transform into cash quickly.

One particular form of wealth—housing—presents special problems. For most homeowners, their homes are probably their largest assets and form the bulk of their wealth. More important, their homes provide them with places to live, for what might be a lower annual cash cost than for similar, rented housing. The family's investment in their home yields a return, not in money income like most financial assets, but rather as housing which is neither valued in dollars nor counted as income in assessing poverty status. By ignoring this in-kind income (often called imputed rent by economists), the official poverty measure understates the resources available to homeowner families to meet their consumption needs.[11] However, omitting the value of services provided by a family's own home—and, to a lesser extent, the value of services provided by other durable goods such as automobiles—yields an inaccurate assessment of its poverty status.

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in assessing poverty status. Others might argue that because pensions reduce the need for other savings, they should be counted.

[11] In part, imputed rent is ignored because it is difficult to obtain accurate data through surveys (the source of other information used to calculate poverty statistics).

Taxes

There are two consistent methods of dealing with taxes in measuring poverty. On the one hand, pre-tax income could be compared against poverty thresholds defined to include tax payments as a resource need; on the other hand, income net of taxes could be compared with poverty thresholds defined as resources required to cover non-tax needs. Official poverty statistics follow neither course, but rather compare pre-tax income with poverty thresholds based on after-tax income. Twenty years ago when the poverty measure was devised, this treatment of income made little difference since poor families paid little or nothing in taxes. Rising payroll taxes and bracket creep in the federal income tax have increased the tax liabilities of low-income households, however; in 1984, families with four members and with earnings at the poverty level owed more than 10 percent of their income in federal taxes—up from 4 percent in 1978. This is a significant reduction in resources available to such families to meet their consumption needs.

In addition, the current treatment of taxes in measuring poverty fails to distinguish the different resource needs of families with and without tax liabilities. Two families with the same pre-tax incomes will not be equally well off if one has income from earnings that are subject to payroll and income taxes, while the other has income from untaxed transfer payments. Consistency requires either that pre-tax incomes be compared with resource needs for consumption and taxes or that after-tax incomes be assessed against consumption needs alone.

Pre-tax incomes are more easily determined than after-tax incomes, since there is wide variation in taxes paid by families with similar before-tax incomes. At the same time, this variation means that poverty thresholds incorporating average tax liabilities would not accurately represent the resource needs of different families. Because there is much less variation in income required for consumption goods and services, thresholds reflecting after-tax needs might provide greater accuracy.

Degree of poverty

Poverty statistics classify families and individuals as either poor or not poor; this simplification severely limits the usefulness of the poverty rate as an indicator of the condition of low-income families. The degree of poverty matters as well, and the inability of the poverty rate to measure degree has several implications. First, the measure separates similar families, and groups together quite different families. A family with income just below the poverty threshold is much more like a family with income just above the threshold than it is like a family with no income at all, yet it appears to be no different from the latter family in the poverty rate statistics. Second, poverty rates do not tell how poor families are. A situation in which every family in the poorest 15 percent of the population has an income $200 below the poverty threshold appears identical to one in which each of those families has an income of only $200, yet clearly the latter presents much greater cause for concern. Third, the poverty rate cannot give a complete picture of the effectiveness of antipoverty programs. In terms of its effect on the poverty *rate*, a program that provided a small amount of additional income to many families just below the poverty line, thus moving them out of poverty, would seem more effective than a program that gave significant resources to the very poor but did not pull any of its beneficiaries above the official poverty line.

The poverty gap—the aggregate amount of cash income by which all poor families fall below the poverty level—is a measure that serves to mitigate these problems somewhat but not completely. It distinguishes sharply between the polar cases cited above: if all poor families are just below the poverty threshold, the poverty gap is relatively small; if all of the poor have virtually no incomes, the gap is large. Further, the poverty gap provides a good measure of the effectiveness of antipoverty programs. The extent to which any program raises measured incomes of the poor will be directly reflected in the poverty gap; benefits going to those at or above the poverty line have no effect on it, however.

At the same time, the poverty gap fails to distinguish which of the poor are helped by improvements in the national economy or by assistance programs. Although providing $1,000 additional annual income to a family who is $1,000 below the poverty threshold has the same effect on the poverty gap as providing the same $1,000 to a family with no income, the latter approach is almost certain to be better in terms of reducing the effects of poverty. Differential impacts on the poor can be distinguished by examining the distribution of the poor and near-poor around the poverty thresholds, considering, for example, the number of families with incomes between 0 and 50 percent of the poverty thresholds, between 50 percent and 75 percent, between 75 percent and 100 percent, between 100 percent and 125 percent, and so on. Changes in this distribution could then show the effects on the poor of antipoverty programs, a drop in unemployment, or other events. It is difficult, however, to summarize the meaning of a given distribution or to compare two different distributions. In any event, there is probably no single measure that tells policymakers all they should know about poverty. Using several measures is probably the best approach.

ALTERNATIVE MEASURES OF POVERTY

This section examines alternative measures of poverty, focusing on various ways of changing the definition of income to include non-cash resources and to exclude taxes paid, and of adjusting the poverty thresholds with which income is compared.

COUNTING IN-KIND INCOME AND EXCLUDING TAXES FROM INCOME

A significant part of income is received in a wide range of in-kind forms. Employers often pay part of the costs of health and life insurance for workers and their families, and sometimes provide meals and housing. The government offers aid to low-income families and individuals through food stamps, school nutrition programs, Medicaid, and housing subsidies for both renters and homeowners. These benefits now comprise nearly two-thirds of all means-tested assistance given to poor households.[12] Medicare provides medical care for the elderly and disabled without regard to recipients' incomes.

Taxes have also grown in importance for low-income families. For a family of four at the poverty level, combined federal payroll and personal income tax liability has grown from 4 percent of income in 1978 to over 10 percent in 1984. More than one-third of all families below the poverty level pay some taxes; for those families, the two taxes average more than 6 percent of income.

Because these in-kind benefits and taxes have significant impacts on the well-being of low-income families, they should be incorporated in assessments of poverty status. Ignoring these factors, which have a large and growing impact on the resources of poor families, yields inaccurate measures of the ability of the poor to satisfy basic needs.

Three questions arise with regard to counting non-cash income and excluding taxes:

—Which kinds of non-cash income can and should be included?
—How should non-cash income be valued?
—Which taxes should be omitted in calculating incomes?

Which kinds of non-cash income can and should be included?

This question has both practical and theoretical parts. On the one hand, if a more inclusive income measure is to be applied, one must be able to determine how much of each kind of non-cash income a family receives. In principle, all benefits that improve a family's ability to obtain goods and services should be included. From a practical viewpoint, however, it is often difficult to determine exactly what in-kind income a family receives. On the other hand, even if one could observe receipt of every form of non-cash income, not all of those forms improve a family's ability to satisfy current needs; for example, employer-provided pension benefits may generate resources that the family can use in retirement but not money with which to buy food today.

What non-cash benefits could be counted as income in practice is determined by the data available. While new survey information is forthcoming, the best current source (the Current Population Survey, or CPS) includes data only on receipt of food stamps, school lunch, housing assistance, and medical care provided through Medicaid, Medicare, and private insurance.[13] The Bureau of the Census has estimated alternative ways of valuing each of these four in-kind transfers; the assessment offered below of in-kind income includes only these four items.[14]

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[12] Department of Commerce, Bureau of the Census, "Estimates of Poverty Including the Value of Noncash Benefits: 1983," Technical Paper 52, Table A, p. viii.

[13] The Survey of Income and Program Participation (SIPP) will provide a wealth of information on 40 different sources of income and 13 classes of assets, but data from SIPP are now available only for the last two quarters of 1983. When more SIPP data are released, it will be possible to determine the receipt of a much wider range of non-cash incomes than with current data bases.

[14] One additional issue involves the inclusion of medical care: should long-term institutional medical care be included at all? Because poverty rates are calculated only for the noninstitutionalized population, only the value of noninstitutional care is included.

How should non-cash income be valued?

To allow combining cash and non-cash incomes, each non-cash benefit must be assigned a cash value, but there is no consensus on how this should be done. The Bureau of the Census has devised three different valuation approaches, each with advantages and drawbacks.[15]

Market value is an estimate of what the good or service would cost if bought in the private market. This is generally easiest to estimate, since there is often a comparable item available for sale for which a price or cost can be found.[16] However, the market value may greatly exceed the value to recipients, if recipients would not have chosen to buy as much of the good or service had they been given its market value in cash, or if in-kind benefits do not free up resources equal to their market value for use in satisfying other needs. In fact, valuing in-kind benefits at their market value can lead to absurd conclusions: an example often cited is that by using the market value approach and valuing Medicaid benefits at average cost (that is, the market value is defined to be the average cost of health care services provided), there would be no elderly poor living alone in New York State because the insurance value of Medicare and Medicaid provided to them exceeds the poverty threshold for single people.

The *recipient/cash equivalent value* (R/CE) addresses this problem by trying to estimate how much cash individuals would have to be given in place of the non-cash benefit to make them feel equally well off. This value cannot be greater than the market value of the benefit; cash equal to the market value would enable recipients to purchase the in-kind transfer and be at least as well off as with the transfer. Usually, the R/CE value is less than the market value; in most cases, recipients would prefer to be given a combination of goods rather than a large amount of only one good; they would thus exchange the in-kind transfer for less than its market value in cash, which could then be used to buy a variety of goods.[17]

For some analysts, the R/CE value is quite appealing since it bases the valuation on the individual's own assessment of the benefit's worth. On the other hand, others would argue that society should judge what in-kind transfers to the poor should be and that self-perceptions of the poor should be ignored. Further, while the R/CE value is conceptually clear, its practical application requires strong assumptions about people's behavior or preferences.[18]

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[15] See Department of Commerce, Bureau of the Census, "Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effect on Poverty," Technical Paper 50, March 1982 (see especially Chapters 4 and 5).

[16] For some items, this is not the case. Medicaid, for example, has no comparable counterpart in the private market. The market value for Medicaid is calculated as an insurance value, based on total program costs.

[17] If the recipient would have purchased at least as much of the item as was received, the transfer frees up cash equal to its market value, so the recipient/cash equivalent value must equal the market value. If the recipient would have purchased less, the recipient/cash equivalent value will generally be lower than market value because consumers usually do not choose to spend all additional income on any one good; they would be willing to give up some of the market value of the in-kind benefit in order to achieve more variety in their consumption.

[18] In particular, the Bureau of the Census approach assumes that the value that recipients place on in-kind benefits is equal either to the average expenditure on the item by similar fami-

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The *budget-share value* assumes that the value of an in-kind benefit cannot exceed the amount that families with cash incomes near the poverty level would spend on that specific item (the "poverty share"). The value of a non-cash benefit is then taken to be the lesser of the market value (as defined above) and this poverty share. This approach addresses the fact that in-kind transfers do not necessarily free up resources for use in satisfying other needs; only to the extent that the transfers replace previously purchased goods or services do recipients have more money to spend on consumption goods.

The budget-share value method has potentially serious shortcomings, however. First, it assumes that recipients of in-kind income value that income as much as people with cash-only incomes near the poverty level. Second, it implicitly assumes that the poverty level is correctly defined. If in-kind income is counted in assessing poverty status, different thresholds may be appropriate. (This issue is discussed further below.)

The budget-share value method could be used to partition poverty thresholds into resource requirements for individual classes of goods. If poverty shares—that is, normal expenditures by families near the poverty level—were used to define resource requirements for specific goods and services, the budget-share value would constrain in-kind transfers to meet only the poverty-level requirement for the good or service in question.[19]

The dollar valuations of in-kind benefits developed by the Bureau of the Census vary significantly across the three approaches. In general, the market value is highest, while the recipient/cash equivalent value is lowest. Because measuring in-kind transfers at market value often overstates the availability of resources for purchasing goods and services—and thus the ability to meet basic needs—the analysis presented here uses only the budget share and the recipient/cash equivalent values. Specific estimates are those made by the Bureau of the Census.

Which taxes should be omitted in calculating incomes?

Because poverty thresholds are based on the relationship between after-tax income and food expenditures, it would be consistent to exclude taxes from the income used to assess poverty status. In essence, the thresholds represent the minimum disposable income required to be nonpoor. Both payroll and income taxes

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lies with similar incomes who do not receive in-kind transfers or to the market value of the benefit, whichever is less. For example, if a family is given housing with a market value of $5,000, and if similar families not receiving housing assistance spend an average of $4,000 on housing, the R/CE value would be $4,000. If the market value of the assistance were only $3,500, the R/CE value would also be $3,500.

An alternative approach uses utility functions to estimate the additional income a family would need to be as well off as with the in-kind benefits. This approach suffers because utility functions are unobservable, and strong assumptions therefore have to be made to obtain estimates. See Department of Commerce, Bureau of the Census, "Alternative Methods for Valuing Selected In-Kind Transfer Benefits and Measuring Their Effect on Poverty," Technical Paper 50, March 1982, pp. 28–31, 38–44, 58–69, and 127–134.

[19] The circularity of this approach may lead to significant under- or over-statement of needs. If the poverty thresholds in fact represent the cost of meeting basic needs, and if families at the thresholds in fact purchase those basic needs, their budget shares represent poverty thresholds for individual items. On the other hand, if poverty thresholds are not what is needed to be nonpoor, or families at the poverty line buy too little or too much of some goods, the budget shares would not accurately denote resources needed to meet basic needs for specific items.

must be subtracted from pre-tax income to determine disposable income that can be compared with the thresholds.[20] On the other hand, because thresholds are based on consumption needs including sales taxes, the latter taxes should not be removed, as they represent part of the cost of goods and services. Similarly, because they are part of shelter costs and are thus part of normal expenditures, property taxes should not be subtracted from gross income. In the following analysis, income is evaluated net of payroll and state and federal income taxes, but inclusive of other taxes.[21]

ESTABLISHING INCOME THRESHOLDS FOR ASSESSING POVERTY STATUS

The thresholds currently used to assess poverty status have been set by multiplying the cost of a nutritionally adequate food bundle by the ratio of after-tax income to food expenditures for families with three or more members. These thresholds are updated over time in line with changes in the CPI for all items. Neither the income nor the food expenditure calculations include in-kind benefits, and it is therefore argued that the thresholds are inappropriate benchmarks to use if non-cash income is counted as a resource. This line of reasoning asserts that if income includes in-kind items, the income-to-food-expenditure ratio must be recalculated with in-kind benefits included in both halves of the ratio. This recalculation would require that the dollar value of in-kind food (such as food stamps, school lunches and other food programs, employer-provided meals, and food grown for personal consumption) be added to cash expenditures for food and that the dollar value of all non-cash income (including employer-provided health and life insurance, housing assistance, Medicare and Medicaid, and food items) be added to after-tax cash income. The revised ratio of these two values would then be multiplied by the cost of an inexpensive food plan to obtain a threshold against which total cash and non-cash income could be compared.

In response to this argument, others contend that there is no need to revise the poverty thresholds to account for non-cash income, because neither income nor consumption included much in kind at the time of the original multiplier calculation, which was based on a 1955 survey. If total food consumption required one-third of total income—before in-kind benefits were significant—then increases in non-cash income and transfers should not affect the income-food ratio, but rather should only require that the non-cash income be included in the poverty assessment. A hypothetical example clarifies this line of reasoning. Assume the multiplier based on cash income (which was then essentially the total) and food expenditures were exactly three, and that the cost of a minimal food plan was $200 per month; the poverty threshold is thus $600 ($200 x 3). A family with $600 or more in cash income and no non-cash benefits would thus be nonpoor. Now suppose that the family was given $100 in food benefits and $100 in housing assistance, and that its housing costs were at least $100. The family would now need only $400 cash income to meet its needs as defined by the poverty level; the non-cash food benefits satisfy half of its food needs and the housing assistance provides some or all of its shelter, leaving only $400 of other needs (the balance of food and housing requirements and all others). On the other hand, if non-cash income was significant in the earlier period, adjustments in the multiplier would be required.

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[20] One can argue that payroll taxes finance retirement benefits and therefore may allow families to reduce savings and increase current consumption. For families in poverty, however, it is unlikely that saving for retirement would occur in the absence of payroll taxes.

[21] It would be equally correct to compare pre-tax needs and pre-tax income, but—as noted above—wide variations in the tax liability make estimating pre-tax needs difficult.

Comparing total incomes—cash plus in-kind—with current poverty thresholds would ignore changes in consumption patterns over time. In that sense, the poverty measure would be constant in absolute terms. However, relative prices have changed over time, and families—both poor and nonpoor—have reacted by adjusting their consumption patterns, buying more of relatively cheaper goods and less of relatively expensive ones. To the extent that this occurred, current poverty thresholds do not have the same meaning as when they were originally defined. To reflect changing relative prices and changing income patterns, the thresholds would require revision.

If the multiplier is to be adjusted to account for the inclusion of in-kind income, an additional question is raised: what group should be used as the basis for estimating the income-to-food expenditure relationship? Orshansky took data for all income groups in the population—partly because that was what was available. But critics complain that this approach biases the multiplier—and, thus, the poverty thresholds—upward because higher-income families spend a smaller fraction of their income on food. If the intent is to characterize the income needs of families at the poverty level, it may be more logical to use data for the low-income population. At the same time, using expenditure information only for the poorest families probably would result in bias in the other direction: those below the poverty level spend a very high proportion of their income on food by necessity, and a multiplier based on the spending patterns of these families would be too low. An intermediate choice would be a group containing neither the poorest nor the richest families.

Another issue regarding thresholds is the basis on which they should be adjusted for inflation. Currently, thresholds are indexed by the CPI for all items. This is appropriate to the extent that the way in which prices are combined in calculating the CPI represents expenditure patterns of families around the poverty level. If this is not the case and if prices for some commodities are changing faster than prices for others, indexation based on the CPI will yield less accurate threshold adjustments than a price index based on actual purchases by poor families. Such a CPI for the poor does not now exist. It could be established, however, based either on the actual consumption patterns of poor families or on a consumption bundle representing the poverty level. While the latter would be conceptually consistent with inflating poverty thresholds, the former would be calculated without defining specific components of poverty-level consumption.

A final issue is whether poverty should be measured in absolute or relative terms. The official poverty measure does not assess whether families have enough income simply to survive. Instead, it takes some account of accepted standards of what constitutes a reasonable quality of life in the United States. Poverty thresholds are thus not strictly absolute, but are at least somewhat relative. Some critics argue that this should be made explicit by setting the thresholds equal to a fixed percentage of median family income. If this were done, what is defined as the poverty level would keep pace with average living standards in the country. In practice, the relationship between current poverty thresholds and median income has followed a downward trend, falling during periods of real growth and increasing during periods of stagflation. The poverty level for a family of four declined from 49 percent of the median income of four-person families in 1959 to 33 percent in 1973 and then rose to 35 percent in 1983. Thus, while the official poverty thresholds might (with the qualifications mentioned above) indicate the income required to obtain a minimum acceptable standard of living, they do not allow for changing perceptions of minimum needs brought about by increasing national income. For the latter, a relative measure would be needed.

Critics maintain that a relative poverty measure is an indicator not of poverty but rather of income inequality, since it measures the fraction of the population with incomes below a fixed percentage of median incomes. If being poor is defined as having income below thresholds defined in relative terms, then poverty can be eradicated only by reducing inequality among incomes of the poor and near-poor. General economic growth that causes all incomes to rise by 10 percent or 50 percent or 100 percent would have no impact on measured poverty at all, even though it would be hard to argue that those people at the bottom of the economic ladder would not be much better off as a result of the growth. In essence, the two measures answer different questions. An absolute measure tells how many people are unable to attain a specific living standard, while a relative measure assesses how well the poor are doing in relation to national norms.

One example of a relative poverty measure is included in the estimates presented below. The poverty level for a family of four was set at 50 percent of the median family income. Thresholds for other family sizes and compositions were set to maintain the same ratio with current official thresholds as for a family of four. This approach yields thresholds about 19 percent above the official thresholds in 1982.

STATISTICS ON POVERTY OF CHILDREN

This section presents 12 different measures of the poverty of children—the official measure used by the Bureau of the Census and 11 alternative measures obtained by varying the definition of income and the poverty thresholds with which incomes are compared. The alternatives are offered as illustrations of how the measurement of poverty might be changed, not as proposed revisions of the current measure. Statistics based on the alternative measures indicate how poverty rates and gaps would vary if definitions were changed; they are not meant to be viewed as "better" measures.

The 12 measures are based on three definitions of income and four sets of poverty thresholds. One definition of income is cash only, the same as is used in the official measure. The other definitions calculate income as cash plus the value of in-kind receipts of food stamps, school lunches, housing assistance, and medical care, minus federal and state income and payroll taxes. One alternative uses the recipient/cash equivalent value of in-kind benefits, while the other uses the budget-share approach.

The lowest of the four sets of thresholds is a reindexation of the original 1965 thresholds, based on changes in the cost of a poverty consumption bundle.[22] The current thresholds are also used, based on the argument given above that no changes in the thresholds are required and to provide a comparison with official poverty statistics. A third set of thresholds is based on a recalculation of the multiplier relating food expenditures to total cash and in-kind income for the entire population.[23] Finally, relative thresholds based on median family incomes provide the highest poverty lines. Table 1 presents the estimated values for these alternative sets of poverty thresholds for 1982. (Because the most recent Census Bureau estimates of tax liabilities and the value of in-kind income needed to calculate incomes for some poverty measures are for 1982, all poverty statistics reported here are for that year.)

POVERTY RATES

Under any particular set of thresholds, poverty rates for children in all families using the different income measures vary only slightly—never by more than about 10 percent—while differences in poverty rates across alternative thresholds are roughly proportional to variations in the thresholds themselves. The 1982 poverty rate for children under age 18 varied from 19.4 percent to 27.7 percent across all 12 measures—compared with 21.9 percent under the official definition (see Table 2). The bulk of the variation was the result of the 20 percent difference between the highest and lowest thresholds; the widest variation across income definitions is from 19.4 percent to 21.6 percent for reindexed thresholds, the lowest values. Whether income is measured in terms of cash only, or inclusive of in-kind benefits and exclusive of taxes, poverty rates for all children as a group are relatively constant.

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[22] This CPI for the poor is based on expenditure patterns for poor people and families obtained from the 1972-1973 Consumer Expenditure Survey (CES). Using published components of the CPI and reweighting with expenditure shares of the poor, it was found that costs for the poor rose about 203 percent between 1965 and 1982. Applying that increase to the 1965 poverty threshold for a family of four ($3,223) yields a reindexed 1982 poverty threshold of $9,757, about 1 percent less than the actual 1982 threshold of $9,862 for four-person families. For a complete discussion of the methodology, see Roberton Williams, "Inflation and the Poor" (unpublished paper, April 1982).

[23] "New multiplier" thresholds were calculated using estimates of total cash plus in-kind income after taxes and food expenditures—with in-kind benefits measured using the recipient/cash equivalent value. In 1978, these values for all families of three or more people were estimated to be $14,067 and $3,532, respectively. The multiplier is the ratio of those two figures, or 3.98. The poverty threshold for a family of four was calculated by multiplying that ratio times the annual cost of the Thrifty Food Plan in 1982—$2,794.20. Poverty thresholds for other family sizes were obtained by multiplying the four-person threshold times the ratio of official thresholds for the given family size and for a four-person family.

TABLE 1.—ALTERNATIVE POVERTY THRESHOLDS, 1982

[In dollars]

Family size and structure [1]	Reindexed threshold [2]	Official threshold	Revised multiplier [3]	Relative threshold [4]
One person	4,849	4,901	5,528	5,823
Age 15 to 64	4,966	5,019	5,661	5,963
Age 65 and over	4,577	4,626	5,218	5,496
2 people	6,214	6,281	7,085	7,463
Under age 65	6,418	6,487	7,317	7,708
Age 65 and over	5,774	5,836	6,583	6,934
3 people	7,611	7,693	8,678	9,140
4 people	9,757	9,862	11,124	11,717
5 people	11,560	11,684	13,180	13,881
6 people	13,066	13,207	14,897	15,691
7 people	14,876	15,036	16,961	17,864
8 people	16,541	16,719	18,859	19,863
9 people or more	19,488	19,698	22,219	23,403
Ratio to official threshold	0.989	1.000	1.128	1.188

[1] For all measures, thresholds for different family sizes are based on ratios between official thresholds for four-person families and the family size in question; for example, the reindexed threshold for five-person families equals $9,757 × ($11,684/9,862). This assumes that the ratio of thresholds for any two family sizes is the same across the four alternatives.

[2] The reindexed threshold is obtained by inflating the official 1965 threshold for a family of four by the change in the CPI for poor families.

[3] Revised multiplier thresholds are obtained by estimating both income and food expenditures, inclusive of in-kind benefits, recalculating the income-to-food-expenditure ratio, and multiplying that ratio times the 1982 Thrifty Food Plan amount for a family of four.

[4] The relative threshold for a family of four is set at 50 percent of the median income for all families.

Source: Department of Commerce, Bureau of the Census, "Characteristics of the Population Below the Poverty Level: 1982" Current Population Reports, Consumer Income Series P–60, No. 144, and the Congressional Budget Office.

TABLE 2.—POVERTY RATES OF CHILDREN USING ALTERNATIVE ILLUSTRATIVE DEFINITIONS OF INCOME AND ALTERNATIVE POVERTY THRESHOLDS, BY FAMILY TYPE, 1982

Threshold [1] and income measure [2]	Children in family type [3]						
	All families	Two-parent	Single parent	Single mother	Single father	No parent	Teenage mother
Official thresholds:							
Cash only	21.9	12.3	51.1	54.0	21.9	44.9	47.4
Cash equivalent	20.7	12.3	46.3	48.8	21.1	41.0	43.4
Budget share	19.8	12.0	43.5	45.8	20.8	39.7	40.6
Reindexed thresholds:							
Cash only	21.6	12.1	50.8	53.6	21.9	44.4	47.4
Cash equivalent	20.3	12.0	45.5	47.9	20.8	40.6	43.0
Budget share	19.4	11.7	42.5	44.7	20.3	39.2	39.5
New multiplier thresholds:							
Cash only	24.9	14.9	55.3	58.3	24.6	48.3	53.4

TABLE 2.—POVERTY RATES OF CHILDREN USING ALTERNATIVE ILLUSTRATIVE DEFINITIONS OF INCOME AND ALTERNATIVE POVERTY THRESHOLDS, BY FAMILY TYPE, 1982—Continued

Threshold [1] and income measure [2]	Children in family type [3]						
	All families	Two-parent	Single parent	Single mother	Single father	No parent	Teenage mother
Cash equivalent	25.6	16.3	53.7	56.7	24.5	48.1	54.9
Budget share	25.2	16.2	52.6	55.5	24.2	47.4	53.0
Relative thresholds:							
Cash only	26.4	16.3	57.2	60.3	25.9	50.2	57.0
Cash equivalent	27.7	18.2	56.8	59.7	27.1	50.3	56.7
Budget share	27.3	18.0	55.7	58.6	27.3	49.8	56.6

[1] See Table 1 for definitions of alternative thresholds and their 1982 values.

[2] Cash only is pre-tax income from all sources. Cash equivalent is total cash income plus the recipient/cash equivalent/value of food stamps, school lunches, housing assistance, and medical care received in kind, less federal and state income and payroll taxes. Budget share is the same as cash equivalent except that in-kind benefits are measured at their budget-share value.

[3] Children include all unmarried people under 18 years of age, except those under 15 years of age who live alone. This definition excludes about 110,000 married people under age 18 and about 200,000 people under age 15 who are living alone.

Source: Congressional Budget Office tabulations of March 1983 Current Population Survey, including Bureau of the Census imputations of the value of the in-kind income and of taxes.

For individual family types, however, poverty rates vary much more across the alternative definitions. For children living in families headed by single women, the broader income definitions yield lower poverty rates—as much as one-sixth lower—regardless of what threshold is used. On the other hand, poverty rates for children in two-parent families decline only slightly or increase by as much as 10 percent. Variation in the effects of alternative definitions results from differences in the relative importance of in-kind income and taxes for different family types. Families headed by single women are likely to receive more in-kind assistance and to pay less in taxes than are married-couple families. As a result, broadening the income definition is likely to have a greater positive effect for families headed by single women than for married couples.

Variation across family types in the effects of changing the poverty definition means that the composition of the population of poor children changes as well, although the differences are not great. Of all poor children under the official definition in 1982, 51 percent lived with their single mothers, while only 42 percent lived with both parents. If poverty had instead been assessed by comparing the budget-share measure of income with the new multiplier thresholds, poor children in two-parent families would have outnumbered those in families headed by single women 48 percent to 45 percent. While these effects may be small—under either measure, each group comprises nearly half of all poor children—they may influence perceptions about which types of families most need assistance.

POVERTY GAPS FOR POOR FAMILIES WITH CHILDREN

Using broader income measures would yield poverty gaps markedly lower than under the current poverty definition, regardless of which thresholds are used (see Table 3). Because large amounts of in-kind transfers go to poor families with children, their inclusion as income would close as much as one-third of the official poverty gap for those families. Using budget-share values would have somewhat larger effects than using cash equivalent values, since the former are greater on average. As noted above, poverty gaps provide a more complete assessment of the status of the poor, since they reflect not only the number of poor people but also their degree of poverty.[24]

TABLE 3.—POVERTY GAPS FOR ALL FAMILIES WITH CHILDREN UNDER ALTERNATIVE ILLUSTRATIVE DEFINITIONS OF INCOME AND POVERTY THRESHOLDS, 1982

[All values in billions of dollars]

Income measure [1]	Poverty thresholds [2]			
	Reindexed	Official	New multiplier	Relative
Cash only	25.3	26.0	34.0	38.2
Cash equivalent	17.9	18.5	26.5	30.9
Budget share	16.9	17.5	25.3	29.6

[1] Cash only is pre-tax income from all sources. Cash equivalent is total cash income plus the recipient/cash equivalent value of food stamps, school lunches, housing assistance, and medical care received in kind, less federal and state income and payroll taxes. Budget share is the same as cash equivalent except that in-kind benefits are measured at their budget share value.

[2] See Table 1 for definitions of alternative thresholds and their 1982 values.

Note.—Children include all unmarried people under 18 years of age, except those under 15 years of age who live alone. This definition excludes about 110,000 married people under age 18 and about 200,000 people under age 15 who are living alone.

Source: Congressional Budget Office tabulations of March 1983 Current Population Survey, including Bureau of the Census imputations of the value of the in-kind income and of taxes.

DISTRIBUTION OF POOR CHILDREN AROUND POVERTY THRESHOLDS

One can obtain a more complicated but also more complete picture of the well-being of children by examining the distribution of children around the poverty thresholds (see Table 1-2 in Chapter I of "Children in Poverty"). By the official poverty measure, nearly three-fourths of poor children (or 16 percent of all children) are in families that have incomes below 75 percent of poverty. An additional 6 percent of all children are not poor, but have incomes within 25 percent of poverty. The broader income definitions change this picture somewhat. If either cash-equivalent or budget-share measures of income are used, only about half of poor children are in families with incomes below 75 percent of the thresholds. The families of nearly one-tenth of all children have incomes within 25 percent above poverty. These numbers are little different if alternative thresholds are used.

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[24] By definition, higher thresholds result in much larger poverty gaps, but that adds little information about the degree of poverty. Most of the increase stems from the additional resources needed to reach the higher thresholds by families that are poor under both sets of thresholds; relatively little increase results from more families being labeled as poor.

These distributions indicate two things. First, many of the poor are well below the poverty level, regardless of how income is measured, and a significant fraction of those that are not poor are only just above the poverty line. Second, in-kind transfers and taxes have a marked leveling effect on incomes: the combination pulls both those people below and those above poverty toward the thresholds.

APPENDIX K. DATA BASES AND MODELS

TRIM2 AND FOOD STAMP SURVEY

Two major data bases and models were used in developing estimates for several of the proposals in H.R. 4920 for expanding the Aid to Families with Dependent Children program: (1) the Transfer Income Model (TRIM2); and (2) the August 1982 survey of the characteristics of households participating in the Food Stamp program. TRIM2 was used in estimating the minimum benefit, the extension of benefits to two-parent families, and the liberalization of asset restrictions. The Food Stamp survey was used in estimating the minimum benefit.

TRIM2 is a microsimulation model based on the Current Population Survey (CPS) of the Bureau of the Census, which is a survey of economic and demographic characteristics of U.S. households. TRIM2 simulates numbers of families (units) eligible for, and participating in, AFDC under current law and under alternative legislative changes. It is maintained by the Urban Institute. In making these estimates, Congressional Budget Office staff worked with the Urban Institute to modify TRIM2 by incorporating the most recent AFDC legislative changes (enacted in 1984 in the Deficit Reduction Act), providing a wider range of legislative changes that could be simulated, and improving certain of its technical aspects.

The estimates shown in this paper were based on TRIM2 simulations for both 1982 and 1984. The year 1982 was the latest year available based on actual CPS data (the March 1983 CPS for income year 1982). The 1984 version of TRIM2 is "aged" from 1982 to 1984 to incorporate population increases and changes in the economy that affect unemployment rates and incomes. For example, 1984 TRIM2 simulations use an unemployment rate of 7.8 percent, compared with a rate of 9.7 percent in 1982, and raise wages by 12.5 percent and most other incomes by 7 percent to 8 percent over 1982.

The second data base—the August 1982 survey of households receiving food stamp benefits—covers almost 7,000 participating households in the 50 states and the District of Columbia, and contains detailed demographic, income, and asset information from case records. Using this information, CBO simulated eligibility for an AFDC program with a minimum benefit and estimated the number of families not participating in AFDC who would become eligible either for a larger benefit or for a new benefit. Since the incomes of families receiving food stamps are allowed to be higher than the incomes of AFDC families in most states, this survey provides an alternative means of estimating the number of new families eligible for AFDC.

TRIM2 and the food stamp survey have relative advantages and disadvantages. TRIM2 can simulate AFDC eligibility more accurately because the CPS survey on which it is based provides more detailed information on families. On the other hand, the food stamp survey has several advantages. Income is underreported on the CPS used in TRIM2, leading to overestimates of new eligibles, but income reported on the food stamp survey is likely to be the same as income used for determining AFDC benefits. Second, some eligible families will not participate in AFDC. TRIM2 simulates participation, but such estimates are necessarily uncertain. It is likely that families who participate in the Food Stamp program would also participate in AFDC if they were eligible.

Both sources are deficient when it comes to estimating ineligibility because of assets. Some families estimated to be newly eligible would be ineligible because their assets would exceed the limits allowed in the AFDC program. The Food Stamp program also has an asset test, but allowable assets are higher than in AFDC. TRIM2 estimates asset levels based on reported interest and dividend income, but such estimates are probably biased downward, as discussed in the chapter on liberalizing asset restrictions.

INCOME SURVEY DEVELOPMENT PROGRAM [ISDP]

The ISDP 1979 Research Panel is a nationally representative sample of approximately 8,360 households (Wave II). It includes information on socioeconomic and demographic characteristics of families such as monthly incomes, assets, and debts. The 1979 panel was one of several pilot surveys conducted by the Bureau of the Census under the direction of the Department of Health and Human Services prior to implementing a full-scale survey.[1]

Based on Wave II information, eligibility for AFDC on the basis of income and family characteristics was simulated for CBO by Mathematica. Approximately 281 families were found to be income eligible for AFDC. Then CBO simulated asset eligibility to see how many families were ineligible for AFDC because of their asset levels, even though they were income eligible. Only 13 families were found to be clearly asset ineligible. Using this very small sample, the effects of liberalizing the AFDC asset test were estimated.

Apart from the serious difficulty of small sample size, there are two other problems with these ISDP asset data. First, nonresponse rates—that is, the proportion of interviewees who fail to respond—on many of the asset questions were very high. For example, on Wave V, the nonresponse rate was 23 percent for the question on amounts in saving accounts and 59 percent to 66 percent for the questions on amounts in bonds and stocks.[2] The Bureau of the Census assigned missing values, but their assignment procedures apparently had important limitations.[3] Second, asset levels are seriously underreported on surveys. Several studies have shown that only about one-half of financial assets are reported, and the same appears to be true of ISDP.[4]

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[1] The Survey of Income and Program Participation is a scaled-down version of this survey but with a larger sample size.

[2] Robert B. Pearl, Matilda Frankel, and Richard C. Williams, "The Effects of Missing Information on the Reliability of Net Worth Data from the 1979 ISDP Research Panel" (Survey Research Laboratory, University of Illinois, Urbana, 1982).

[3] For more detail, see Daniel B. Radner and Denton R. Vaughan, "The Joint Distribution of Wealth and Income for Age Groups, 1979" (Working Paper Series, Number 33, Office of Research, Statistics and International Policy, Social Security Administration, Department of Health and Human Services, March 1984).

1979 AFDC Recipient Characteristics Study

The 1979 AFDC Recipient Characteristics Study is an administrative record survey of AFDC cases that are representative of the March 1979 AFDC caseload. Data are based on information in the case records on file in AFDC offices. The sample includes 23,000 families.

This study was the last survey of AFDC case records before passage of the Omnibus Budget Reconciliation Act of 1981, and so includes information on families who are no longer eligible for AFDC, for example, the survey found 438,000 AFDC families with earnings, compared with only 190,000 on a similar 1982 AFDC survey. This is the best data base for estimating impacts of AFDC expansions that are more restrictive than before the 1981 act.

The CBO has modified the data in several ways. AFDC benefits reported on the survey are not used; rather, benefits are simulated using estimated 1984 state need and payment standards and reported incomes inflated to 1984 levels. Then legislative changes under the Omnibus Budget Reconciliation Act and the Deficit Reduction Act of 1984 are simulated to estimate the number of AFDC beneficiaries under current law.

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[4] See Robert Ferber, "The Reliability of Consumer Reports of Financial Assets and Debts" (Studies in Consumer Savings, Number 6, Bureau of Economic and Business Research, University of Illinois, Urbana, 1966); Robert B. Pearl, Matilda Frankel, and Richard C. Williams, "Missing Information"; and Dorothy S. Projector and Gertrude S. Weiss, "Survey of Financial Characteristics to Consumers" (Board of Governors of the Federal Reserve System, August 1966), pp. 61-62.

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